

No. 16141

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

THE COLEMAN COMPANY, INC., a corporation,
Defendant-Appellant,
vs.

HOLLY MANUFACTURING COMPANY, a corporation,
Plaintiff-Appellee.

BRIEF OF PLAINTIFF-APPELLEE HOLLY MANUFACTURING COMPANY.

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BRIEF OF PLAINTIFF-APPELLEE HOLLY MANUFACTURING COMPANY.

Introduction.

This Court has already decided that the patent involved in this accounting is valid, that the Coleman Company, Defendant-Appellant, infringed the patent, and specifically "that all of the essential parts and elements of appellee's device have been with immaterial variations, faithfully copied by appellant in its various models here claimed to infringe appellee's patent," and that the infringement was with knowledge of the patent and was "intentional, conscious and deliberate." (233 F. 2d 71, 83, 84, cert. den., 352 U. S. 952.) These issues are, therefore, *res judicata*.

After Coleman's petition for certiorari was denied, a final injunction was entered prohibiting further sales of the infringing devices. Soon thereafter the District Court found that Coleman was in contempt of court for failure to obey the injunction.

**Only the Amount of Damages Is Now Before
This Court.**

This appeal concerns the accounting for damages which was conducted by the District Court after the mandate was issued by this Court on the previous appeal concerning the issues of validity and infringement. Coleman also asks this Court to review the citation for contempt.

Coleman comes to this Court as an adjudged willful and deliberate infringer, guilty of contempt of court as well. Nonetheless, it is now arguing that it should be required to pay only nominal damages or at most a small royalty, which would still leave it a very large profit on its infringement.

Coleman's position as a willful, deliberate infringer entitles it to no equitable consideration and certainly does not warrant placing Coleman in the advantageous position of a licensee who has made a deal on its own favorable terms.

Infringement of a patent is a tortious taking of the patent owner's property, and the purpose of an accounting in a patent case is to restore the injured party to the condition it would have been in had the infringement not occurred. Also, it is a fundamental principle of equity that a wrongdoer, such as the intentional tort-feasor of the present case, should not be permitted to benefit from its wrong.

Holly's Damages Are Substantial.

The District Court found that Coleman's tortious appropriation and copying of Holly's major product caused loss of profits to Holly and provided large profits to Coleman. The District Court based its award on the profits which it is reasonably probable that Holly would have

made on an additional volume of sales corresponding in dollar value to the infringing sales made by Coleman. The District Court increased the award based on lost profits $33\frac{1}{3}\%$ to compensate Holly for the forced price reductions, the increased selling expenses, and curtailment of its market expansion, caused by Coleman's tortious appropriation of Holly's major product. The District Court also awarded punitive damages and attorneys' fees because of the willful and aggravated nature of the infringement.

Coleman argues that only nominal damages are justified on the contention that the evidence which formed the basis for the prior decisions concerning infringement, both by the District Court and by this Court, was mistaken and incorrect and that there was really no infringement at all.

Coleman, an Adjudged Willful Infringer, Is Attempting to Retry the Entire Case.

Throughout its opening brief, Coleman asserts over and over again that it has shown in the accounting proceedings that the evidence concerning infringement was erroneous. Such repetition might be effective before a jury. However, Coleman's assertion failed to impress the Special Master or the District Court. Contrary to Coleman's assertion, Holly did not concede the existence of such an error. In fact, Coleman's assertion was a matter of direct dispute and was rejected by the District Court after it had viewed tests on the issue of the claimed error. Apparently Coleman feels that if it continually repeats its false assertion, it will eventually gather some substance. However, Coleman has presented *no new evidence on this issue* during the accounting proceedings.

Instead, Coleman is rearguing *the very same evidence on infringement* which was rejected by the District Court and this Court affirmed. Coleman is endeavoring to retry the entire case in the accounting proceedings.

**This Appeal Legitimately Involves Only
Three Fact Issues.**

This appeal involves only three basic issues as set forth on page 7 of Coleman's opening brief. All are issues of fact. They are:

1. The amount of Holly's damages resulting from Coleman's tortious evasion of its rights.

2. The finding of the District Court that Coleman sold infringing heaters after the final injunction, as set out in the judgment for civil contempt.

3. The finding of the District Court that Coleman's conduct amounts to unfairness or bad faith so as to warrant awards of exemplary damages and attorneys' fees.

This litigation has been going on for nearly six years and the District Court has had the parties and their witnesses before it on three separate occasions—at the original trial in 1955, at the hearing for civil contempt in 1957, and at the hearing on the accounting in 1958. Inter partes tests were conducted on two occasions—prior to the original trial and at the hearing for civil contempt. The latter tests were observed by the District Court. All of these proceedings were before the same judge, William C. Mathes.

In disregard of this Court's appellate function and, indeed, its appellate jurisdiction, Coleman is asking the

Court to try *de novo* the disputed questions of fact that were settled below. But this Court, which heeds “the admonition that appellate courts should be slow to impute to trial courts a want of diligence or perspicacity” (*Cavness v. United States*, 187 F. 2d 719, 723 (9th Cir., 1951)) will not so usurp the functions of the District Court.

The Supreme Court has stated with respect to patent cases:

“Like any other issue of fact, final determination requires a balancing of credibility, persuasiveness and weight of evidence. It is to be decided by the trial court and that court’s decision, under general principles of appellate review, should not be disturbed unless clearly erroneous. Particularly is this so in a field where so much depends upon familiarity with specific scientific problems and principles not usually contained in the general storehouse of knowledge and experience.” (*Graver Tank & Manufacturing Company, Inc. v. Linde Air Products Co.*, 339 U. S. 605, 609-610 (1949).)

Coleman’s statement of the case in its opening brief is distorted and incomplete. We are, therefore, compelled to present a true statement of the facts on behalf of Holly.

Statement of the Facts and the Manner in Which the Questions on This Appeal Arose.

Holly Places the Patented Wall Heaters on the Market and Achieves Immediate and Pronounced Commercial Success.

Holly started business in 1938 with one employee. [R. 1385.] It progressed rapidly in the heater business, its progress being predicated in large part on the development of leading products. [R. 1389-1394.] During the war years Holly developed an oil-burning furnace which was ahead of its competition, and in 1945, Holly developed an entirely new design of floor furnace which made it unnecessary for builders to dig a pit under the house to accommodate the furnace. No one else had such a furnace at the time, and the demand for the furnace helped Holly develop in Southern California an excellent dealer organization. [R. 1391.] Mr. Olds, who was in charge of major appliance design for Coleman, corroborated the fact that Holly was a leader in developing new products in the heating field. [R. 1306.]

By the year 1950, Holly had progressed to the point where it was supplying 11.3% of all the wall heaters sold in the United States [Orig. R. 542], and was in a firm financial position. [R. 1390.] But its wall heaters, like those of other manufacturers, were subject to a number of objections (mainly that the wall above the heater was too hot and that the heaters did not heat the room as well as they should), which Holly sought to overcome. In that year, Holly introduced the improved wall heater which is the subject of the patent in suit. This heater overcame the objections. It eliminated the hot wall problem. It improved the circulation of air in the heated room, and it minimized the heat loss due to warm air being sucked

out of the room into the flue through the draft hood. These features were made possible by the use of a secondary heat exchanger of unique construction disposed above the primary heater. Holly's wall heater sales climbed rapidly, so that in 1951, they constituted 19.1% of the national market [Orig. R. 542], almost double what they had been in the previous year. By 1952, Holly's sales were on a nationwide basis and amounted to about \$3,-300,000. [Accounting Ex. 24.] More than eighty percent of these sales were accounted for by its new patented wall heaters with the secondary heat exchanger. [R. 1423.]

Coleman Copies Holly's Heater and Continues Its Infringement After Falsely Representing That It Will adopt a Non-Infringing Design.

In July, 1951, Coleman's president instructed his appliance design group to produce a wall heater like the Holly heater. Coleman's heater then in production was not competitive with the Holly heater. He stated with respect to possible infringement of Holly's patent rights that "he would take care of the matter when it came up." [R. 1250-1252.]

Holly's single patent on its new wall heater (the patent in suit) issued in July, 1952. In September, 1952, Coleman asked Holly for a license under the patent and was refused. [R. 1255, 1256, 1436.] Coleman chose to disregard the patent and started selling its infringing heaters the next month. Holly thereupon served notice of infringement, and Coleman, through its counsel, Mr. Dawson, assured Holly that it would cease infringement by redesigning its heater [Orig. R. 514] and furnished Holly with a drawing of the heater it alleged it was about to substitute for the infringing model. [Orig. R. 516.]

But when Coleman's redesigned heater came on the market, Holly discovered that it did not live up to Mr. Dawson's assurances and that Coleman continued to infringe.

Holly endeavored to avoid litigation, and offered Coleman a limited license for one year to permit Coleman to dispose of the infringing heaters. [R. 1437.] But Coleman refused this proposal and continued the infringement.

Holly Brings Suit for Infringement and Coleman Conducts False Tests Designed to Show Lack of Infringement.

Holly brought this suit on September 23, 1953. In January, 1954, at the University of Wichita, Coleman staged certain tests that were calculated to show that its heaters did not infringe. Holly's representatives were invited to attend the tests, and the first of Coleman's long line of counsel, Mr. Dawson, took depositions in connection with them. This was the first time that Mr. Dawson ever witnessed tests of the infringing heaters. [R. 786.] The furnaces employed in the tests were not installed in accordance with Coleman's own operating instructions. [Orig. R. 476, 594.] Contrary to the instructions, the front panels on the heaters were improperly placed, so that there were large gaps through which considerable flow of air occurred to distort the normal air-flow patterns in the heater. The tests were further falsified by partially blocking the space between the rear wall and the heater with plaster. Both the improper leaks and the plaster blocks were observed and pointed out by Holly's representatives. [Orig. R. 477.] Thereupon, Mr. Dawson was seen no more, except briefly as a witness for Coleman during the accounting.

The Original Trial.

At the trial before the District Court, Coleman was represented by the firm of Lyon and Lyon. Coleman admitted that its heaters contained every element of the patent. (233 F. 2d 71, 84.) The only issue involved the manner in which the heaters functioned. Three "experts" for Coleman, Messrs. Kice, who was assistant to the President of Coleman, Blazier and Petoﬀ, of the University of Wichita Research Foundation, testified at length as to how Coleman's heaters operated and what the air flows were. Holly produced witnesses who presented testimony in contradiction to that of Coleman's "experts." The District Court resolved this conflict of testimony, made extensive findings of fact, and concluded that the patent was valid and infringed.

It should be pointed out that with respect to Coleman's present contention that the heaters were not properly tested since a large source of air to the economizer was overlooked, Coleman's witness unequivocally testified that such a source did not exist. [Orig. R. 360, 361.]

The Original Appeal.

Coleman, again represented by Lyon and Lyon, appealed from the decision of the District Court and alleged that the District Court had made forty-eight specified errors. But this Court found no merit in any of the alleged errors, approved the findings of the District Court, and held that the patent was valid and characterized Coleman as an intentional, conscious and deliberate infringer.

On the issue of invention, this Court held that:

"From the entire record it appears that a 'heat exchanger' or 'economizer' of this peculiar construction and arrangement has never been embodied in any type

of mechanical wall heater apparatus prior to its application and use in the Holly device. The earlier patented devices, all of which were in evidence, cannot be said to embody in any material way the dual heat passing functional operation accomplished by the use of the upper box 'economizer' integrated into the complete Holly device. In our opinion this arrangement of parts has caused all of the elements incorporated in the Holly combination to cooperate in a new way to produce a new, useful and unexpected result in the room-heating art. This combination spells out both novelty and utility. As reduced to practice its attributes have caused the Holly device to take on a new and unique quality and distinction which clearly makes it a new and useful improvement in wall heaters fired with gaseous fuel and as such it represents a measurable and substantial advance and improvement in the room-heating art and a valuable contribution thereto.

" . . . In our view the whole of the Holly device yields 'surprising consequences' which others in the heating field failed to find 'obvious'." (233 F. 2d 71, 79, 80.)

This Court went on to hold that:

" . . . the Holly patentees clearly appear to have parted company with the basic design portrayed by these concepts to create something *new in overall construction and functional operation**—a compact unitary wall device which could easily be adapted to the modern pattern and mode of living under conditions or urban life (or where gas would be available) and where an effective and reliable single-room gas-burning heater device would be highly desirable and certainly very useful." (233 F. 2d 71, 84.)

*Emphasis ours.

On the issue of infringement this Court observed that the claims cover the Coleman wall heater in its entirety, saying:

“A brief glance at the claims of the patent in issue reveals that the Holly patentees definitely *claimed* the structure and utilization of this new ‘economizer’ assembly as an essential and integral part of their binary device.” (233 F. 2d 71, 80.)

“A careful consideration of the entire record (including exhibits) convinces us that all of the essential parts and elements of appellee’s device have been, with *immaterial variances, faithfully copied** by appellant in constructing its various models here claimed to infringe appellee’s patent. There is most persuasive evidence in the record to sustain this conclusion.” (233 F. 2d 71, 83.)

Lastly, as we have already noted, this Court held that Coleman’s infringement “has been and is intentional, conscious and deliberate.” (233 F. 2d 71, 84.)

The Petitions for a New Trial and for a Rehearing.

Upon receipt of this Court’s decision, Coleman moved for a new trial on the ground of “newly discovered evidence,” the British Patent No. 502,945 granted in 1939 to Darby, and also made a petition for a rehearing before this Court. It is unnecessary to go into the details of these maneuvers by Coleman, for this Court found both the motion for a new trial and the petition for rehearing to be without merit, but it is interesting to observe that Coleman’s principal counsel at this stage of the proceedings was the Wichita firm of Foulston, Siefken, Schoepel, Bartlett and Powers, the third firm that entered the arena for Coleman.

*Emphasis ours.

The Petition for a Writ of Certiorari.

Coleman's next effort was a petition to the Supreme Court for a Writ of Certiorari, this effort being spear-headed by the fourth counsel to be employed by Coleman, Mr. Dean Acheson. Certiorari was denied in December, 1956, and the injunction became final.

The Contempt Proceeding.

During all of the preceding long, drawn-out period of litigation, Coleman continued to make and sell the infringing heaters. Nor did it cease to infringe when the injunction became final. On the contrary, Coleman persisted in selling the identical infringing heaters together with a small piece of metal, a "chute," included in the cartons in which the heaters were sold, along with installation instructions for the chutes. In consequence, Holly brought a motion for civil contempt for violation of the injunction. Coleman appeared at the contempt trial with new counsel, Mr. Stanbury, a new Vice-President, Mr. Newton, and a new expert, Mr. Harmon. Coleman, represented this time by its fifth counsel in the matter, introduced evidence purporting to show that the addition of the chute avoided infringement, and also introduced evidence purporting to show that there were air flows (the "brown" air) in the prior Coleman heaters, previously held to infringe, which likewise avoided infringement, and undertook to demonstrate these alleged facts by tests of the heater, with and without the chute, in the presence of the District Court. Mr. Stanbury asserted, prior to these tests, that they would "put the matter at rest." [R. 445.] The District Court witnessed the Coleman tests and also witnessed tests conducted by Holly which showed that the "brown" air path into the economizer was insignificant and that the tests on which the Court based its finding of

infringement presented a true picture of the functioning of Coleman's heaters. The tests did "put the matter at rest" for after witnessing the tests and hearing oral argument, the District Court held that the heaters, with the chute installed, still infringed the patent and held Coleman in contempt.

The Accounting.

After the contempt proceeding, the case was referred to a Master to ascertain Holly's damages. Mr. Tilton, Mr. Dawson's partner, appeared for the first time, and assisted Mr. Stanbury, and Coleman brought in another new expert, Mr. Berry.

Determination of Coleman's Profits from the Infringement.

Coleman admitted a profit of approximately \$600,000 [Accounting Ex. A] on the infringing heaters, but had not kept separate accounts of the infringing operation, and during the hearings on the accounting it became apparent that Coleman had made a number of improper allocations of expenses. For example, it had even charged a portion of Coleman's legal expenses in this very litigation against profits on the infringing heaters. The Master accepted part of Holly's corrections and found that Coleman's profit was \$785,975. The District Court accepted the rest of Holly's corrections and found that Coleman's true profits from the infringing operations amounted to \$1,186,537. Coleman, on this appeal, does not object to this Finding XVIII of the District Court nor did it object to the supporting Findings XIV, XV, XVI, and XVII. The figure must be taken as correct and represents a minimum figure for Holly's damages.

The profit figure of \$1,186,537 does not represent the entire advantage that accrued to Coleman from the in-

fringement. Mr. Kuhn, Coleman's treasurer, in an affidavit filed in support of Coleman's petition for a stay of the District Court's injunction, swore that without the infringing heaters, Coleman's entire Heating Appliance Division, which accounted for 40% of its entire business, would have been unprofitable [R. 6], and that Coleman might be forced to close its Los Angeles and San Francisco offices because of lack of business. [R. 9.]

**Determination of Holly's Profits on Sales Lost
Due to Coleman's Infringement**

During the accounting, Holly showed that its own actual profit margin on the patented heaters was higher than Coleman's and amounted to a net profit of 19%. The Master so found as did the District Court. [R. 61, 426.] Coleman's sales of the infringing heaters subject to this accounting amounted to \$7,635,062, as the Master and the District Court found, and again Coleman does not object to this finding on this appeal. If Holly had sold Coleman's infringing heaters, in addition to its own patented heaters, it is a simple matter of arithmetic to determine that its profit would have been 19% x \$7,635,062, or \$1,450,661.

During the accounting proceeding, Holly showed that throughout the infringing period only Holly and Coleman sold the patented heaters, that there were no other heaters on the market that had the same sales features, that these features were the important ones for both parties' heaters, that Holly and Coleman were in direct competition with each other throughout the country and at all levels of distribution, that Holly was in good financial condition and could have produced all the infringing heaters of Coleman, and that Holly's sales of the patented heaters increased markedly before Coleman entered the field, decreased dur-

ing the infringing period, and increased immediately after the infringement ceased. The Master accepted all of this evidence and made corresponding findings. All of this evidence shows that Holly, in all reasonable probability, would have manufactured and sold the additional patented heaters represented by Coleman's infringement and would have made the profit of \$1,450,661 calculated in the foregoing paragraph.

The Master recognized that "Holly may have been able to make all the sales made by defendant or at least a large percentage of them. Its percentage of the national market would have exceeded 20% but for the infringement" [R. 52], but refused to award the profits on Coleman's sales at Holly's profit margin on the ground that some of Coleman's customers might have bought heaters other than the patented heaters since they were "not compelled to use plaintiff's patented heater or go without heat." [R. 53.] In consequence of this view, the Master based his award on the profits made by Coleman but remarked that "plaintiff's damages amount *at least* to the profits made by the defendant." [R. 54.]

Throughout the accounting, Coleman contended that Holly, in order to recover its lost profits, must prove that it would have made *each and every* Coleman sale if Coleman had stayed out of the field. Holly disagreed with this view of the law, and contended that in order to recover its lost profits of \$1,450,661, it had only to show that it was *reasonably probable* that it would have made the sales and that the evidence satisfied this requirement. The District Court agreed with Holly's view of the law and awarded Holly's lost profits calculated by applying Holly's percentage of profits to Coleman's volume of sale; *i.e.*, 19% x \$7,635,062—\$1,450,661, as previously described. [R. 426.]

Determination of Profits Lost by Holly on Its Own Sales Due to Price Reductions and Increased Selling Expenses Forced by Coleman and Due to Coleman's Interference With Holly's Market Expansion.

During the accounting, Holly contended that an award of profits, calculated as just described, would not afford complete compensation for the infringement, because the figure does not reflect the fact that, but for Coleman's competition, Holly would have made a larger profit on its own sales of the patented heater and does not reflect Coleman's interference with Holly's market expansion. The Master found that "the evidence shows that plaintiff was forced to reduce the selling price of its heater because of defendant's competition. It also shows that plaintiff was required to exert increased selling efforts and expenses to meet the competition." [R. 52.] The Master calculated that the enforced price reduction and increased sales costs amounted to at least \$280,000 [R. 50] but, strangely, did not award this sum to Holly, nor did the Master make any measurement or award of damages for Coleman's interference with Holly's general market expansion. When these anomalies were called to the attention of the District Court, it held that:

"Damages computed on the basis of plaintiff's lost profits or damages on the basis of defendant's actual profits do not compensate plaintiff for forced price reductions, or increased selling expenses and curtailment of plaintiff's market expansion caused by the infringement; the damages suffered by plaintiff due to forced price reductions and increased selling expenses amount to not less than \$280,000; and plaintiff's damages as actually computed on the basis of plaintiff's lost profits should be increased not less than $33\frac{1}{3}\%$ to provide full compensation for the injury caused to plaintiff by the defendant's intentional tort." [R. 430.]

Pursuant to the foregoing finding, the District Court computed an additional award of \$483,553.93, arrived at by multiplying the figure of plaintiff's lost profits on Coleman's infringing sales (\$1,450,661.78) by 33⅓%. [R. 436.]

The Aggravated Nature of Coleman's Tort.

The fact that Coleman's infringement was willful, conscious and deliberate is, as we have already observed, *res judicata*. During the accounting, Holly urged that Coleman's conduct was such as to justify an award of punitive damages.

The Master refused to recommend such an award with respect to damages accruing prior to final injunction on the sole ground that "defendant in good faith relied on expert opinions to the effect that the patent involved was not infringed." [R. 67.] The Master made no finding with respect to damages accruing after final injunction "in view of the fact that the (District) Court heard the evidence on the contempt proceeding and so is in a better position than the Master to determine if the defendant in good faith relied upon expert opinions that the changes made eliminated the infringement." [R. 67.]

In a review of the Master's findings before the District Court, Holly pointed to a number of examples of Coleman's conduct, other than the fact that it was willful, intentional and deliberate, which justified an award of punitive damages. Holly also showed that Coleman's experts were not sufficiently informed to provide an opinion upon which Coleman could in good faith rely.

The District Court, after reviewing the evidence, found that the infringement was not only willful and deliberate, but "in complete disregard of plaintiff's patent rights, and although it had notice of plaintiff's patent, defendant

did not exercise due care to ascertain whether or not it was infringing plaintiff's patent, or at any other time." The District Court further found that "the defendant's conduct amounts to unfairness or bad faith" [R. 431.] In consequence of these findings, the District Court increased damages by 25%, trebled those accruing after the final injunction, and also awarded Holly attorneys' fees. The figure of 25% was applied to Holly's lost profits on Coleman's infringing heaters; *i.e.*, \$1,450,661.78, the result being exemplary damages in the amount of \$362,665.45. For infringement after final injunction the Court awarded treble damages in the amount of \$69,483.38. The figures for attorneys' fees were \$130,000 plus \$9,269.77 in the contempt proceedings.

Summary of Argument.

Coleman is paying no more than lip service to the prior decisions of the District Court and of this Court and is again rearguing the entire case, particularly the issue of infringement.

Coleman asserts that the evidence upon which the prior decisions of the District Court and of this Court are based is mistaken and incorrect and that there was really no infringement at all. However, no new evidence has been submitted. Coleman is merely rehashing the prior evidence and arguments.

Also, Coleman is re-arguing disputed questions of fact, such as percentages of air flow and the importance of such air flow, which were settled by the Trial Court after witnessing inter partes tests.

In its endeavor to re-argue the entire case before this Court, Coleman is not only arguing disputed questions of fact settled in the court below, but it is also arguing points

that are not included in its Points on Appeal or in its Specification of Errors.

The willful nature of the infringement, the advance in the art provided by the invention, and Coleman's appropriation of the entire invention precludes assessment of damages on the basis of a reasonable royalty, on the basis of the advantage provided by the infringing device over a standard of comparison, or on the basis of apportionment of the profits.

The proper measure of damages under the facts of this case is the profit which it is reasonably probable that Holly would have made on the infringing sales since that profit is larger than the profit which Coleman made on the infringing sales. Undeniably Coleman caused Holly to lose such profits.

Coleman's profit was less than the profit which it is reasonably probable that Holly would have made on the infringing sales and, hence, is not the proper measure of damages in this case. However, Coleman's profit would be the proper measure of damages if it had been larger than Holly's probable profits. At a minimum, therefore, Holly would be entitled to recover Coleman's actual profit, \$1,186,537, irrespective of whether or not Holly would have made the sales which Coleman made if Coleman had not entered the field. This is because an infringer's profits is one of the traditional measures of damages, on the age-old theory that a wrongdoer shall not be allowed to profit from his wrong. Coleman was an intentional tort-feasor and should not be permitted to retain its ill-gotten gains.

An award based on profits, either Holly's lost profits or Coleman's actual profits, does not fully compensate Holly for its injury. In addition to these items of damage, Holly suffered price reductions on its own sales which were

forced by Coleman's competition, increased selling expenses on the part of Holly as a result of Coleman's competition with the very same product, and curtailment of its market expansion based upon use of the patented wall heater as a leading product. The increase in the award in the amount of $33\frac{1}{3}\%$ to compensate Holly for these injuries is proper and is well supported by the evidence in the record before this Court.

Whether or not the sales of the wall heaters after the injunction became final were in contempt of court is purely a question of fact. The sole issue is whether or not the wall heaters sold with chutes infringed Holly's patent. The issue of infringement is a question of fact. The District Court found infringement. Great weight is given a trial court's determination of questions of fact, particularly when the determination is based upon an inspection of physical apparatus and inter partes tests of the apparatus.

The punitive increase in damages and the award of attorneys' fees are well supported by the evidence of record in this case. Coleman was a willful tort-feasor. It deliberately pirated Holly's major product and deliberately infringed Holly's patent. It acted in complete disregard for Holly's proprietary rights, its patent counsel was not sufficiently informed concerning the wall heaters to render an opinion upon which Coleman could rely in good faith, and it made many misrepresentations to Holly concerning the infringement.

Coleman is arguing issues of fact only. No issues of law are presented. Due to the extensive legal proceedings before it, the District Court was in excellent position to balance the credibility of the witnesses, and to balance the persuasiveness and weight of the evidence. Its judgment on all the issues is well supported by the record before this Court.

ARGUMENT.

I.

Coleman Pays No More Than Lip Service to the Prior Decisions in This Case and Is Endeavoring to Re-argue the Issue of Infringement.

Throughout its brief Coleman, in a last-ditch effort, contends that the evidence upon which the prior decisions were based, including the decision of this Court, was mistaken and incorrect. Coleman argued the very same thing before both the Special Master [R. 1818-1821] and the District Court [R. 1863-1866] repeatedly, but to no avail.

Coleman bases its argument on the false contention that one of Holly's experts, Mr. Landsberg, admitted during the contempt proceedings that his tests and calculations were mistaken and incorrect. The contention is not true, and cannot be supported in the record.

At the original trial on the issue of infringement, Mr. Landsberg testified concerning the amount of air which the secondary heat exchanger or economizer of the Coleman heater derived through the passageway about the sides and back of the lower box of the heater.* It was 57% for Coleman's early type heaters and 22% or 23% for the rest of the heaters which constituted most of Coleman's sales. [Orig. R. 226, 227.]

Mr. Landsberg made the same kind of tests and gave testimony at the contempt trial with respect to the heaters employing a chute which were sold after the injunction became final. The amount of this air was 16% to 17%. [R. 489.]

*At the original trial, the major issue on infringement was whether the Coleman heaters contained a conduit for air to be taken into the economizer from around the lower box as called for by one element of the claims.

After giving this testimony at the contempt trial, Mr. Landsberg was asked on cross-examination if his calculations would be destroyed if it is a fact that there was a major source of air (the so-called "brown" air) which he had not considered. He responded, "If it is a fact, there is a question as to the path that that air took to get to the economizer." [R. 558.]

Thus, Mr. Landsberg's answer merely said that if it is a fact that there was a major source of air for the economizer which he had not considered, then there might be some question about his computations. Mr. Landsberg's answer was not an admission that his computations were incorrect.

After this cross-examination of Mr. Landsberg, Coleman endeavored to show that there was another major source of air for the economizer. It contended that a joint in the top of the lower box served as a major source of air for the economizer. It called the joint a "scoop." In reality, it was an overlapping closure between two portions of the lower box, and it did not serve as a major source of air for the economizer. (Coleman's present contention about this major source of air is just the opposite of its contention during the prior trial on the issue of infringement. There its expert Mr. Kice stated that the air heated in the lower box is not used at all in the economizer. He said "There is no way for it to get in there directly. The only way would be indirectly." [Orig. R. 360-361.])

After Coleman endeavored to show that the joint, or "scoop" provided air to the economizer, Mr. Landsberg made additional tests. He tested a Coleman heater with a tape across the joint or "scoop" through which the major source of air was supposed to flow. Then he removed the

tape. The first test showed that the economizer received 14.9% of its air from the channel about the sides and back of the heater. [R. 686.] The second test showed 19.4% [R. 687.]

Thus, the joint or “scoop” did not serve as a major source of air for the economizer. The most that can be said for the joint or “scoop” is that it may have reduced the flow of air through the passageway between the sides and back of the wall heater from 19.4% to 14.9%. The difference—4.5%—is the amount of air which flows through the joint or “scoop.” Comparatively, this is not a major source of air by any means.

The District Court found that Coleman’s so-called “major source” of air provided at best 6% of the air for the economizer [R. 766], and held that the air which was provided through the passageway about the sides and back of the heater was sufficient to affect the efficiency and operation of Coleman’s heaters [R. 41], as discussed more fully in Section X of this brief.

The issue of infringement is *res judicata*. The evidence upon which the decisions concerning infringement are based is not mistaken and incorrect, as contended by Coleman. It is merely endeavoring to re-open the entire case.

II.

Coleman, in Disregard of This Court’s Appellate Function, Is Re-arguing Disputed Questions of Fact That Were Settled by the Trial Court.

Coleman contends that its computations showing the flow of air through the passageway about the sides and back of the lower box to be mere leakage of the order of .6% to 3% of the total air supplied to the economizer, are correct and stand uncontested and uncontradicted. (Br. 6, 11, 18, 20, 23, 47, 48, 50, 71, 75.)

Nothing could be farther from the truth! Coleman's computations relate to the issue of infringement, which is a question of fact. (*Martin v. Be-Ge Mfg. Co.*, 232 F. 2d 530 (9th Cir., 1956).) This question of fact has been contested vigorously and resolved in every instance in Holly's favor.

The computations which Coleman now contends to be correct are those of its Mr. Newton.

The same figures based upon the same unreliable smoke tests were presented at the original trial where Coleman contended that the flow of air through the passageway about the sides and back of the lower box was leakage of the order of 3% or 4% of the total air supplied to the economizer. [Orig. R. 395, 406.] The District Court found otherwise and this Court affirmed.

The same computations were presented at the contempt trial, where Coleman contended that this flow of air was 1.3% without the chute and .6% with the chute installed. [R. 645.] The District Court found that the flow of air was much larger. [R. 766.]

The same computations were presented during the accounting where Coleman contended that this flow of air was 3.1% without the chute and 1.3% with the chute installed. [R. 1594.] But the District Court reaffirmed its finding of infringement with respect to the sales, both before and after the judgment became final, and awarded substantial damages on both types of sales.

Coleman again urges, as it did before the District Court, that its computations concerning air flow in the accounting are based upon something new. Before the Special Master and the District Court Coleman's counsel urged that the results shown by these computations render the assessment of damages like in a wrongful death action

after the supposedly dead person walks into the court room.
[R. 1826, 1866.]

Nothing new has been added in the accounting proceedings concerning the amount of air which enters the economizer or heat exchanger from the space about the sides and back of the lower box. Coleman's Mr. Newton testified in the accounting proceedings, with respect to the data upon which he based his computations, that "I used the data which I took from the record in the contempt part of the trial." [R. 1593.] In response to the question "May we ask precisely what part of the record this data is, what page?", Coleman's counsel stated "It is in Volume III (of the contempt transcript) and it describes it when the Court was present." [R. 1594.] Mr. Newton went on to say "I took the data with the chute mainly from page 209, and without the chute mainly from page 240." [R. 1594.] *Clearly nothing new was added concerning percentages of air flow during the accounting proceedings.* Mr. Stanbury so stated when he said "And this is not new evidence." [R. 1593.]

Evidence was presented by Coleman during the accounting proceedings concerning the effect of this flow of air on the efficiency of the Coleman heaters and on the temperatures of the wall in which the heaters are mounted. This evidence was the testimony of Mr. Berry concerning *ex parte* tests which he *conducted*. Mr. Berry gave no testimony or test results concerning percentage of air flow.

Moreover, Mr. Berry admitted that his test procedure was incomplete as far as the requirements of the A.G.A. (American Gas Association) are concerned, because he did not measure the wall temperatures above the economizer outlet grille and the temperatures along the wall behind the economizer outlet grille. [R. 1550, 1553.]

Mr. Berry further admitted that the back wall temperatures which he did not measure "would have been probably high" [R. 1556], that with respect to a solid metal member for preventing the flow of air from the space about the lower box to the economizer, "It's conceivable that the conduction of heat along a solid member going to the wall would conduct enough heat so that the temperature might be too high" [R. 1560]; and that "there were a number of places in this top panel" having temperatures which would not have passed the A.G.A. requirements. [R. 1566.]

Thus, the tests of Mr. Berry are of no significance at all concerning the efficiency of the heater. However, these tests did indicate that with the flow of air from about the sides and back of the lower box to the secondary heat exchanger cut off completely, the Coleman heater would not have even come close to passing the A.G.A. requirements concerning wall temperatures. Apparently this flow of air was essential; without it Coleman's heaters would not have passed the standards imposed by the A.G.A. and could not have been sold. [Orig. R. 173.] Mr. Berry further corroborated this when he pointed out that the air flow in these heaters is "very, very important . . . because you have such a very small amount of heating surface (in a wall heater located in the space between a pair of studs). It is really ridiculous that you can get by with that small amount of heating surface with a 35,000 BTU heater." [R. 1567.]

The District Court has found with respect to the sales both before and after the injunction became final, that the quantity of air entering the economizer from around the back and sides of the lower box was of sufficient quantity to affect materially the efficiency and operation

of Coleman's heaters. [Interlocutory Findings VI, VII; R. 40-41.] This question of fact was settled by the Trial Court after it viewed tests of the heaters, and its decision is entitled to great weight.

III.

Coleman Is Precluded From Arguing Many of the Points Raised in Its Brief Because of Its Failure to Comply With the Rules Concerning Appeals.

Coleman, in its endeavor to completely re-try the present case before this Court, is not only arguing disputed questions of fact, but is also arguing points that are not included in its Points on Appeal under Rule 17 or its Specification of Errors, under Rule 18.2(d), as follows:

1. Coleman now asserts (Br. 41, 52) that the only feature covered by Holly's patent is a channel for conveying air to the secondary heat exchanger or economizer. However, the District Court and this Court of Appeals found that the invention is a combination of elements providing a new overall construction and operation, and that no particular element or group of elements less than the entire combination constitutes the invention. This is set forth in Finding XIX, yet Coleman did not list this finding or its substance in its Points on Appeal [R. 2016] or its Specification of Errors. (Br. 7-8.)

2. Coleman now asserts (Br. 12, 37) that the 19% profit margin attributed to Holly is without support in the record. Both the Special Master [R. 51] and the District Court [R. 426] found that Holly's profit margin for the purpose of this accounting was 19%. This is set forth in the District Court's Finding XII, yet Coleman did not set forth either this finding or its substance in its Points on Appeal or in the Specification of Errors.

The only Points on Appeal relating to Holly's lost profits are Numbers 1 and 2, which say that Holly failed to prove any lost profits or any actual damage, in accordance with Findings IV, V, VIII, X, XI and XIII, and that Holly's lost profits and damages should not be equated with Coleman's sales in accordance with Finding X.

3. Coleman now asserts (Br. 81-82) that its actual profits were \$785,975.85. However, the District Court found Coleman's actual profits to be \$1,186,537.27. This is set forth in Finding XVIII [R. 428] and in the supporting Findings XIV, XV, XVI, XVII [R. 426-427], yet Coleman did not set forth these findings or their substance in its Points on Appeal or its Specification of Errors.

Rule 17 of the United States Court of Appeals for the Ninth Circuit states that the court will consider nothing but the points so stated. Rule 18.2(d) requires that the findings of fact and conclusions of law alleged to be erroneous be set forth with particularity.

Rule 75(d) of the Federal Rules of Civil Procedure also provides that if appellant does not designate for inclusion the complete record and evidence, as was the case here, he shall provide a statement of the points on which he intends to rely.

The courts have required adherence to these Rules. For example, in *Jesionowski v. Boston & Maine Railroad*, 329 U. S. 452, 459 (1947), the Supreme Court reviewed a case in which a Circuit Court held that the issue of a defect in equipment was not properly raised before it because the issue was not included in its statement of points as required by F. R. C. P., Rule 75(d). It was argued that the issue was raised, though not specifically,

by its general point that the doctrine of *res ipsa loquitur* was not applicable. The Supreme Court said:

“We cannot hold that the Circuit Court erred when it refused to consider the question because of respondent’s failure to comply with Rule 75(d).”

In *Hargraves v. Bowden*, 217 F. 2d 839, 840 (9th Cir., 1954), this Court said:

“The attorneys should make an attempt to conform to the rules and not try to improvise new practice. At least, the points at issue on appeal should be defined.”

In *Matsuo Yoshida v. Liberty Mutual Insurance Company*, 240 F. 2d 824, 829 (9th Cir., 1957), this Court stated:

“ . . . However, appellants are precluded from raising this issue because of their failure to set forth the full substance of the rejected evidence in their appeal brief as required by Rule 18, subd. 2(d) of this Court, 28 USCA.”

United States v. Shingle, 91 F. 2d 85, 87 (9th Cir., 1937), Cert. Denied 302 U. S. 746, and *United States v. John II Estate*, 91 F. 2d 93, 94 (9th Cir., 1937), Cert. Denied 302 U. S. 746, are cases in which the appellant improperly specified many more errors than it argued in its brief. In the present case appellant argued many more points in its brief than it specified as errors or Points on Appeal. This is improper.

Coleman is not adhering to its Points on Appeal or its Specification of Errors. It is re-arguing the entire case on this appeal in an endeavor to render the previous six years of litigation a nullity, just as it has endeavored to do throughout the accounting proceedings.

IV.

Coleman's Contention That Its Infringement Was Trivial and Hence to Be Satisfied by an Award of Little More Than Normal Damages Is Not Well Founded, Either in Fact or in Law.

Coleman continues to argue that its infringement was trivial because it reduced the size of one passageway for air, a single element of the infringed claims. It does this despite its failure to object to the District Court's Finding XIX to the effect that Holly's invention is a combination of elements providing a new overall construction and operation, and that no particular element or group of elements less than the entire combination constitutes the invention. [R. 428.]

This is improper, but if this Court elects to consider the point it will find that Coleman's infringement was complete.

A. The Extent of Coleman's Infringement Is Complete as a Matter of Fact.

Coleman asserts that the vital distinguishing feature of the Holly patent is the passageway for conveying air along the back and sides of the lower box to the secondary heat exchanger or economizer. In support of this Coleman contends that the Patent Office rejected the Holly patent application on the ground that there was no invention in merely adding a secondary heat exchanger to a gas wall heater. This is incorrect, as an inspection of the file history of the Holly patent will show. [Trial Exs. A and B.]

Throughout the accounting proceedings Coleman has contended that it could have avoided infringement by the elimination of this particular passageway for air. How-

ever, Coleman employed this passageway and, hence, what it might have done is of no significance. Moreover, Coleman never showed that it could eliminate this passageway. In fact, the testimony of Coleman's expert, Mr. Berry, indicated that a heater with the passageway eliminated would not pass the A.G.A. requirements, as discussed above in Section II.

Moreover, Coleman could have avoided infringement by the elimination of any of the other elements of the patent claims. However, the value of the invention cannot be assessed on the basis of the importance of any single element or on the basis of the cost of eliminating any such element.

There was a demand for wall heaters employing secondary heat exchangers. Only Holly and Coleman have supplied such wall heaters and these wall heaters employed all of the elements of the claims of Holly's patent. This combination of elements had substantial value.

This Court has already recognized that the invention of the patent in suit covers more than a minor improvement of prior wall heaters. Thus, this Court said:

"A brief glance at the claims of the patent in issue reveals that the Holly patentees definitely *claimed** the structure and utilization of this new 'economizer' assembly as an essential and integral part of their binary device." (233 F. 2d 71, 80.)

This Court went on to say that:

". . . The Holly patentees clearly appear to have parted company with the basic design portrayed by these concepts (the prior art) to create something new in overall construction and functional oper-

*The emphasis is the Court's.

ation—a compact unitary wall device which could easily be adapted to the modern pattern and mode of living under conditions of urban life (or where gas would be available) and where an effective and reliable single-room gas-burning heater would be highly desirable and certainly very useful.” (233 F. 2d 71, 84.)

Both of these quotations emphasize that the patented heater comprises a new combination of elements, and that the invention resides in the whole combination, as set out element by element, in the principal claim of the patent in suit.

This Court has already found that Coleman copied “all the essential parts and elements” of Holly’s wall heater, and “that the Coleman devices contain all the elements called for by claims 1 through 4 of the patent in suit.” (233 F. 2d 71, 83, 84.)

The completeness of Coleman’s infringement prior to its adoption of the chutes is *res judicata*. The infringement after the chutes were installed is also complete, for the case is one that “comes within the settled rule that infringement is not avoided by impairment in degree so long as the distinguishing function is retained.” (*Murray v. Detroit Wire Spring Co.*, 206 Fed. 465, 468 (6th Cir., 1913).)

**B. Coleman’s Contention That All it Has to Pay
for Is a Passageway for Air Is, as a Matter
of Law, Fallacious.**

Coleman, despite the holding of this Court of Appeals that the invention of the patent in suit resides in the entire combination, that the patent claims this entire combination, and that Coleman “faithfully copied” the entire

combination with "immaterial variances," contends that its infringement was trivial and that damages should be assessed on the importance of the passageway through which air flows from the space about the sides and back of the lower box into the economizer.

A somewhat similar contention was made by the defendant in the case of *Ruth v. Stearns-Roger Manufacturing Co.*, 13 Fed. Supp. 697 (D. Colo., 1935). The invention in that case involved a flotation machine employing an impeller, two communicating compartments, and a weir. The infringer contended that the weir was the only improvement contributed by the invention and that the patent owner was entitled only to the profits on the weir.

In the *Ruth* case the infringer contended that all it had to pay for was a passageway for water; *i.e.*, the weir. In the present case Coleman contends that all it has to pay for is the passageway for the so-called infringing air. The infringer in the *Ruth* case was not successful in his contention. The Court found that although some of the elements in the invention were old, the old elements and the weir produced a new combination. In the present case the Courts have found that the Holly invention likewise involves a new combination and have expressly failed to find that all these elements were old. (233 F. 2d 71, 80.) The Court of Appeals went even further in the present case and found that a "heat exchanger or economizer of the peculiar construction and arrangement has never been embodied in any type of mechanical wall heater apparatus prior to its application and use in the Holly device." (233 F. 2d 71, 79.)

In the *Ruth* case the District Court awarded the infringer's profits to the patent owner. This was affirmed

on appeal. (*Stearns-Roger Manufacturing Co. v. Ruth*, 87 F. 2d 35, 39 (10th Cir., 1936).) The Court of Appeals said:

“The Master was put to choice, under the proof, of awarding appellee nominal damage, which would be grievously unjust and not in accordance with the spirit of our mandate; relegating him to royalties, manifestly impractical here, for there could be no fairly accurate measure of a reasonable royalty; or requiring appellant to yield up all the profits made on the sales of these machines. The latter choice was made, and we concur.”

Coleman suggests that since it cut down on the flow of air through one passageway of the infringing heater, the damage which it caused Holly is less than the damage that Holly would have suffered if Coleman had not cut down on the flow of air. In essence Coleman is contending that there are degrees of infringement and that their degree of infringement is low because they reduced the flow of air through one passageway. The Courts have never recognized degrees of infringement. Either there is infringement or there is no infringement. If there is infringement, Holly is entitled to general damages. If there is no infringement, Holly is not entitled to any damages. Since the Courts have found that there was infringement, Holly is entitled to general damages.

V.

This Is Not a Case Where Apportionment of Damages Applies.

Damages are assessed on the basis of apportionment where the patented invention is only a portion of a machine. The portion of the profits derived from the portion of the entire machine covered by the patented invention is

the award in such case. In the present case it is *res judicata* that the patent covers the entire wall heater as set forth in Section IV above, and hence, apportionment does not apply. The Trial Court has so found in Findings XIX and XXI and Coleman has not taken exception to these findings.

VI.

This Is Not a Case Where Damages Based on the Advantage Over a Standard of Comparison Applies.

In a few instances the Courts have awarded damages based on the advantage which the patented invention provides over other means for producing the same result which was available to the defendant when he began the infringement. (Klooster, "Patent Accountings," 1930, p. 422.)

Such a device must have been "open to the public," "in common use," "known prior to complainant's invention," and "open to the world." (Klooster, "Patent Accountings," 1930, p. 423.)

Coleman argues that it could have manufactured and sold a non-infringing heater with one passageway for air sealed off. It contends that this so-called infringing air was actually of no value to Coleman, and that damages should be assessed accordingly. That is, the damages should be nominal based upon this standard of comparison.

However, Coleman has never built such a heater which is exemplified by accounting Exhibit BB [R. 1679], and Coleman has not shown that such a heater was "in common use" and "known prior to complainant's invention" as required when damages are assessed on the basis of the advantage which the patented invention provides over a standard of comparison.

Thus, Coleman is endeavoring to use a *hypothetical* non-infringing heater as a standard of comparison. This tactic for endeavoring to hold down damage awards has been expressly rejected by the courts in many cases. For example, in *Expanded Metal Co., et al. v. General Fireproofing Co.*, 247 Fed. 899, 910 (D. C. Ohio, 1917), the court held that an infringer "should not be permitted to avail himself of inventions developed by himself or others after he has appropriated another's property for the purpose of mitigating or avoiding the damage thus inflicted on another."

Another Court expressed this more forcefully as follows:

"The obvious danger of attempting to measure recovery, not by what the infringer as a manufacturer or seller in fact made as a manufacturer's and seller's profit on the particular combination, but by the gain, if any, as compared with what he would have made had he manufactured something which he might, but did not make—the obvious danger involved is this: *It introduces a conjectural basis of evidence; it compels assumptions which are repugnant to the very purpose of giving relief to the patentee for the appropriation which the infringer for some reason chose; it compels comparison of what he actually did, as against a standard which he chose not to follow,** it gives prominence to what, but for the invention, he might have done, thereby to get the measure or value of what, apparently, because of the invention, he did do. *In other words, the realm of speculation is explored, collaterally inquired into, with the inevitable result of always finding some standard which will lead to nominal recoveries;** a practical

*Emphasis ours.

result of treating the infringement of appropriation as a mere fortuity, a mere accident of making a selection of one out of several equally desirable courses to pursue.” (*Malleable Iron Range Co. v. Lee*, 263 Fed. 896, 900 (7th Cir., 1920).)

Coleman also contends that the Royal Jet [Accounting Ex. FF] and the Williams [Accounting Ex. EE] heaters are similar to the patented heaters. However, it is clear that these heaters did not have the features of the patented heaters and cannot serve as a standard of comparison. The Williams heater was not placed on the market until the very end of the infringing period in April or May, 1957, and, hence, is too late to meet the requirements for a standard of comparison. [R. 1679.] Moreover, the Williams heater is merely arranged to look like the patented heater in order to take advantage of its popularity. It does not have a secondary heat exchanger, nor does it heat two streams of air. [R. 1677-1678.]

The Royal Jet heater was not really a wall heater. It would not fit in the space between a pair of studs. It was so large that it was usually placed in the corner of a room and framed in. [R. 1676-1677.] Also, the Royal Jet heater had only one outlet for heated air and heated only a single stream of air [R. 1762], whereas the heaters made by Holly and Coleman heated two separate streams of air and had two outlets for these streams of hot air.

Obviously, there is no standard for comparison available to Coleman. The District Court so found in Finding XX. [R. 428-429.] Hence, damages must be assessed on the entire wall heater structure and not on the advantage provided by a passageway for air, as contended by Coleman.

VII.

This Is Not a Case Where a Reasonable Royalty Applies.

Coleman contends, as it has throughout the accounting proceedings, that since the 1946 amendments to the statute concerning damages in patent cases, profits have been virtually excluded as an element of damages and that a reasonable royalty is the measure that must be employed in nearly every case. (Br. 78-82.)

Hence, Coleman contends that despite the adjudicated fact that it is an intentional tort-feasor, it should be permitted to retain the fruits of its wrong-doing and should be required to pay only a royalty that it as a willing licensee would pay. Such a contention violates the fundamental principle of equity as exemplified by California Civil Code, Section 3517, that "no one can take advantage of his own wrong."

The Congressional proceedings concerning the 1946 changes are reproduced as Appendix C to this brief. These proceedings clearly show that it was the intent of Congress to provide for the recovery of general damages. It has been properly pointed out that the 1946 change was a "broadening amendment to the statute." (*Livesay Window Company v. Livesay Industries*, 251 F. 2d 469, 472 (5th Cir., 1958).)

A reasonable royalty is the minimum measure of damages permitted under the statute concerning damages in patent cases. The reasonable royalty measure of damages is proper where the infringement is without notice or knowledge of the patent, as shown by the Congressional proceedings. Likewise, the reasonable royalty measure of damages is proper where the patent owner exploits the

patent by licensing it on a royalty basis rather than by manufacturing and selling the patented product. (*Faulkner v. Gibbs*, 199 F. 2d 635 (9th Cir., 1952).)

The reasonable royalty minimum measure of damages can have no application here because it is *res judicata* that Coleman's infringement was deliberate and with notice of the patent, and because Holly did not exploit the patent by granting licenses on a royalty basis but rather manufactured and sold the patented heaters and endeavored to exclude Coleman from encroaching upon its proprietary product. An award based upon a reasonable royalty would, in effect, amount to compulsory licensing, which is repugnant to the American way of doing business and which has been expressly rejected by Congress, as shown by the Congressional proceedings of Appendix C.

Coleman contends (Br. 79-80) that *Faulkner v. Gibbs*, 199 F. 2d 635 (9th Cir., 1952) and *Dowagiac Mfg. Co. v. Minnesota Moline Power Co.*, 235 U. S. 641, require that a reasonable royalty be the basis of the award in the present case.

However, in the *Faulkner* case the patent owner exploited the invention by licensing others and the infringement was innocent—without prior knowledge of the patent. Neither of these factors are present in the case at bar. Footnote 7 of the *Faulkner* case (p. 638) says:

“Where, however, the patentee has himself engaged in the manufacture, use or sale of his patented article, he may be awarded damages for his loss of profits resulting from the infringement.”

The decision of the *Dowagiac* case is predicated upon the findings that: (1) the patent covered merely an improvement in a small portion of a large machine which

was in commercial use prior to the invention; (2) the infringement was not willful; (3) there was no showing that the patent owner had the means and facilities required to supply both its own customers and those who purchased the infringing devices; and (4) there was no showing of lost sales or injury by competition resulting from the infringement.

In the present case, the absence of the first two of these items is *res judicata*. Either of these factors would take the present case outside the holding of the *Dowagiac* case. In addition, Holly has proved that it had the means and facilities required to supply both its own customers and those who purchased the infringing devices from Coleman. It is also established that Coleman's infringement caused Holly to lose sales and interfered with the expansion of Holly's entire business.

A recent case in which the infringer's profits were employed as the measure of the damages is *Graham et al. v. Jeoffroy Mfg., Inc., et al.*, 253 F. 2d 72 (5th Cir., 1958), cert. denied, 79 S. Ct. 28, 3 L. Ed. 59, 118. In its petition for certiorari the infringer urged that its profits were not a proper measure of the damages since the 1946 revision of the statute and *specifically asked the Supreme Court to review the issue as to whether or not profits are recoverable under the statute today. The Supreme Court significantly denied the petition for writ of certiorari. It was not impressed with arguments which are the very same as those which Coleman has presented in the present case.*

It is clear that profits are proper elements or measures of damages today. A reasonable royalty is merely the statutory minimum.

VIII.

The Proper Measure of Damages Under the Facts of This Case Is the Profit Which It Is Reasonably Probable That Holly Would Have Made on the Infringing Sales, or Coleman's Actual Profits, Whichever Is Greater.

The statutory provision concerning damages for infringement of a patent states that "The Court shall award the claimant damages adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer . . ." and that "the Court may increase the damages up to three times the amount found or assessed." (35 U. S. C. 284.)

The proper measure of damages in a patent infringement case, as in any other tort case, is that which most nearly restores the injured party to the condition it would have been in had the infringement never occurred. (*Yale Lock Mfg. Co. v. James Sargent*, 117 U. S. 536, 552-553; *Faulkner v. Gibbs*, 199 F. 2d 635, 638 (9th Cir., 1952); *Livesay Window Company, Inc. v. Livesay Industries, Inc.*, 251 F. 2d 469, 471 (5th Cir., 1958).)

A. The Infringer's Actual Profits Is One Measure of Damages.

The profits which the infringer made is an element or measure of damages which is employed frequently in an application of the well-established principle that a wrongdoer shall not be permitted to retain the benefits of his wrong-doing. (*Duplate Corp. v. Triplex Safety Glass Co.*, 298 U. S. 448, 457 (1936). An accounting of profits and damages is not unique to a patent case. It is simply an "affirmation of pre-existing principles of equity."

(*Computing Scale Co. v. Toledo Computing Scale Co.*, 279 Fed. 648, 671 (7th Cir., 1921).)

Also, profits are one measure of the value of what the infringer took from the patent owner. It is one of the traditional ways to assess damages in patent cases, and is still in effect today. (*Computing Scale Co. v. Toledo Computing Scale Co.*, 279 Fed. 648, 672 (7th Cir., 1921); *Graham v. Jeoffroy Mfg. Co., Inc.*, 253 F. 2d 72, 74 (5th Cir., 1958); Cert. Denied, 3 L. Ed. 59, 118, 79 S. Ct. 28; Cong. Rec.—Senate, July 17, 1946, p. 9188; 1946 Code Cong. Serv. 1386, June 4, 1946, which are set forth in Appendix C to this Brief.) This corresponds to the common law rule concerning the tortious taking of real property where the owner is entitled to “the reasonable rental value of the land during the time of the defendant’s occupancy, or the value of the actual yield, if that is greater.” (*Handbook on the Law of Damages*” by Charles T. McCormick, 1935, p. 480.)

B. Coleman’s Actual Profits.

Coleman now asserts, in its endeavor to reargue the entire case, that its actual profits were only \$785,975.85. (Br. 81-82.) However, the District Court found that Coleman’s profits amounted to at least \$1,186,537.27, providing a profit margin of 15.5%.

Coleman did not object to this Finding XVIII or to the supporting Findings XIV, XV, XVI and XVII [R. 426-428] or their substance in its Points on Appeal or its Specification of Errors, and it is improper for Coleman to reargue the matter of its actual profits now. However, if the court elects to review this matter, it will find ample evidence in the record to support the findings of the District Court.

Coleman did not keep separate accounts of its infringing operations. During the accounting Coleman presented a statement showing a profit of approximately \$600,000.00. [Accounting Ex. A.] This figure was derived by improperly allocating to the infringing operation many costs that should not have been borne by that operation. One such improper allocation was a share of the attorneys' and professional fees spent in defending this litigation. The impropriety of Coleman's other allocations are developed at length in the record, pages 255-273.

The parties are in agreement as to the total dollar volume of the sales made by Coleman. The sales which are subject to this accounting amounted to \$7,635,062. After a detailed investigation concerning expenses properly chargeable against this operation involving the testimony of Messrs. Hyland, Kuhn, Olds and Morgan, Holly showed that Coleman's profits amounted to at least \$1,186,537.27, providing a profit margin of 15.5%. [R. 428.]

The Coleman heater had the same features as the Holly heater and the two looked very much alike. There is no evidence that any of the "immaterial variations" added by Coleman contributed to Coleman's profits. Thus, Coleman's direct profit of at least \$1,186,537.27 is a minimum measure of Holly's damages.

C. The Patent Owner's Lost Profits Is Another Measure of Damages.

The profits which the patent owner was deprived of by the infringement is an element or measure of damages which is often employed by the Courts. The patent owner's lost profits is one measure of what the infringer took from the patent owner in cases in which the patent

owner is actively engaged in manufacturing and selling the patented invention and does not license others to do so. (*Faulkner v. Gibbs*, 199 F. 2d 635, 638-fn. 7 (9th Cir., 1952); *Livesay Window Company, Inc. v. Livesay Industries, Inc.*, 251 F. 2d 469 (5th Cir., 1958); *National Rejectors, Inc. v. A. B. T. Mfg. Corp.*, 188 F. 2d 706 (7th Cir., 1951); *Electric Pipelines, Inc. v. Fluid Systems, Inc.*, 146 Fed. Supp. 262 (D. C. Conn., 1956).) In such circumstances, it is the patent owner's lost profits which restores the patent owner to the condition it would have been in had the infringement never occurred. This corresponds to the common law rule concerning the tortious taking of personal property where the owner is entitled to recovery of "the value of the use of the property during the time he has been deprived of it, and this may be measured by its normal earning power . . ." and the recovery may be for "loss of profits" when justified under the facts of the situation. ("Handbook on the Law of Damages" by Charles T. McCormick, 1935, pp. 477, 479.)

D. Holly's Lost Profits on Coleman's Infringing Sales.

Coleman's contention (Br. 26) that the figure for lost profits which the Master believed to be supported by the evidence was \$400,000 is incorrect. This is the figure which the Master found that Holly would have lost predicated upon the assumption that Holly would have had 20% of the national market if Coleman had not infringed. [R. 50.] The Master went on to find that Holly would have sold more than 20% of the national market [R. 51], and did not base his award on this basis at all because Holly did not show that it would have sold "all" of the infringing heaters, but for the infringement. [R. 52.]

The District Court rejected this misconception of the law and awarded Holly its lost profits computed on the

basis of the profits which Holly would have made at its profit margin on the dollar volume of Coleman's actual sales of the infringing heaters, the sum of \$1,450,661.78.

Both the Special Master and the District Court found Holly's profit margin on the wall heaters to be 19% for the purpose of this accounting. [R. 51, 426.] Now Coleman asserts that this profit margin is incorrect. However, Coleman did not object to this Finding XII by the District Court or to its substance in its Points on Appeal or in its Specification of Errors, and it is improper for Coleman to reargue the matter of Holly's profit margin now.

However, if the Court elects to review the matter, it will find ample evidence in the record to support the findings of the Master and the District Court.

Holly's profit margin was ascertained in two ways—by determining the average profits made by Holly during a reasonable period, and by a detailed computation made by one of Holly's accountants in accordance with Holly's standard accounting practices and based on the entire infringing period from 1952 through the first quarter of 1957. The first way provides a profit figure of 19%, and the second way a figure of 19.3%.

The detailed computation was presented by Mr. Claybaugh and was not objected to by Coleman. [R. 1321, 1325.] The figures are shown in Accounting Exhibit 20. Mr. Claybaugh found that Holly's average profit per wall heater was as follows: 1952—\$14.52, 1953—\$12.46, 1954—\$12.50, 1955—\$14.11, 1956—\$11.22 and 1957—\$6.24. By multiplying Coleman's wall heater unit sales each year by Holly's profit per wall heater unit for the respective years, Mr. Claybaugh found that Holly's lost profits were \$1,475,010.00.

Mr. Claybaugh's computation is based on the average profit derived by Holly's entire line of products over the entire infringing period from 1952 through the first quarter of 1957. [R. 1329.] The computation is thus conservative because the patented wall heater line was more profitable to Holly than the other lines of equipment which it sold. [R. 1326, 1329.] There are two other features that tend to make the profit figure of Accounting Exhibit 20 conservative. First, the manufacturing costs for the additional heaters are taken to be the same as the manufacturing costs for the heaters which Holly actually sold with no allowance for savings due to increased volume in manufacturing. [R. 1330.] Second, administrative and engineering expenses were taken as fixed, regardless of volume, and sales expense was increased in proportion to volume. But some elements of sales expenses are, in fact, fixed and such fixed sales expenses, together with fixed portions of manufacturing costs, such as depreciation, real estate taxes, and insurance, which have been ignored in the computation, more than offset any variable items of administrative and engineering expenses. [R. 1330.]

The determination of Holly's profit margin on the basis of Holly's average profits over a reasonable period of time is a judicially approved way for computing lost profits. (*Bemis Car Box Co. v. J. G. Brill Co.*, 200 Fed. 749 (3rd Cir., 1912), Cert. denied, 226 U. S. 614.)

Holly's profit during the year 1951 was 20.1% on all of its sales. During 1952 it was 17.4%, and during the first half of 1953 it was 19.7%. [R. 1431, 1488.] Holly's average profit during this period was approximately 19%. This period includes one and three-quarters years prior to Coleman's entry into the market and three-quarters of a year after Coleman's entry. The wall heaters were

more profitable than Holly's other products. [R. 1326, 1329.] Hence, Holly's profit margin was actually greater than 19% during the early part of the infringing period. During the latter part of the infringing period the profit margins were reduced because the building industry was in a depressed condition [R. 50] due in part to strikes.

Coleman has presented a table (Br. 39) which purports to show that Holly's profit margin on the wall heater was lower than the 19% found by both the Special Master and the District Court. However, the table is arranged to emphasize the end portion of the infringing period when the building industry was in a depressed condition. The first three months of 1957 are given the same weight as a full year. Also, the year 1956 is included twice in the computation of the average.

The 19% profit margin on the wall heater sales is possibly low for the first part of the infringing period and possibly high for the latter part, but the average of 19% throughout the infringing period is proper for the purpose of this accounting. This is corroborated by the computation in Accounting Exhibit 20 which results in an actual lost profit figure of \$1,475,010.00, or an average profit margin of about 19.3% throughout the infringing period.

If anything, the computation resulting in an average profit figure of 19% for Holly is more favorable to Coleman than it should be. This Court has pointed out that a satisfactory way of computing lost profits is to employ the business records of the injured party before the injury occurred. (*The Flintkote Company v. Lysfjord et al.*, 246 F. 2d 368, 392 (9th Cir., 1957).) Coleman entered the market with its wall heater during the latter part of 1952. Hence, Holly's profit margin for the year

1951 of 20.1% could be employed. This was the first full year of sales of the patented wall heater and, hence, is the only year before the injury occurred upon which computations may be made.

Coleman's sales of the infringing heater amounted to \$7,635,062.00, and this figure is undisputed. Multiplying the dollar volume of the Coleman sales by Holly's profit figure of 19% results in the computation of Holly's lost profits in the amount of \$1,450,661.78. The concurrence of the Special Master and the District Court on this point is entitled to great weight. This is one element of Holly's damages.

E. Coleman's Infringement Caused Holly to Lose Profits.

Coleman contends that it did not cause Holly to lose profits, and that in any event Holly cannot recover its lost profits because such profits are speculative since Holly did not prove that each and every purchaser of the infringing heaters would have purchased from Holly if the infringing heaters had not been available. Coleman further urges that absolute certainty of proof is required on the part of Holly concerning the sales which Holly would have made. However, *Coleman is confusing the issue of causation with the issue of the amount of the damages.* These two issues are discussed separately in this and the next section of this brief.

Certainty of proof is required as to the fact of damage and the fact that Coleman caused it. The amount of the damages may be ascertained by a reasonable calculation. On this question the Supreme Court has stated:

"The rule which precludes the recovery of uncertain damages applies to such as are not the certain result of the wrong, not to those damages which

are definitely attributable to the wrong and only uncertain in respect of their amount.”

* * * * *

“Where the tort itself is of such a nature as to preclude the ascertainment of the amount of damages with certainty, it would be a perversion of fundamental principles of justice to deny all relief to the injured person, and thereby relieve the wrongdoer from making any amend for his acts. In such case, while the damages may not be determined by mere speculation or guess, it will be enough if the evidence show the extent of the damages as a matter of just and reasonable inference, although the result be only approximate.” (*Story Parchment Co. v. Patterson Parchment Paper Co.*, 282 U. S. 555, 562, 563 (1931).)

This Court has stated with reference to lost profits in an antitrust case:

“The cases have drawn a distinction between the quantum of proof necessary to show the *fact* as distinguished from the *amount* of damage; the burden as to the former is the more stringent one. In other words, the *fact* of injury must first be shown before the jury is allowed to estimate the *amount* of damage.” (*Flintkote Company v. Lysfjord*, 246 F. 2d 368, 392 (9th Cir., 1957).)

The fact of damage in the present case is beyond dispute. Damage to Holly was inevitable when Coleman appropriated Holly’s major and leading product. The Special Master found that “the evidence is conclusive that plaintiff suffered damages because of defendant’s infringement.” [R. 52.]

As this Court has stated, the wall heater is unique because “a heat exchanger or economizer of this particular

construction and arrangement has never been embodied in any type of mechanical wall heater apparatus prior to its application and use in the Holly device"; the wall heater "represents a measurable and substantial advance and improvement in the room-heating art and a valuable contribution thereto," and "the record establishes a ready and widespread acceptance of the Holly device on the market and attendant commercial success." (233 F. 2d 71, 79, 80.) It is inevitable that Holly would suffer loss of sales to Coleman when Coleman forced Holly to share the market with it.

The loss which Holly suffered is the natural and proximate consequence of Coleman's wrongdoing. The patented wall heater was Holly's major product, constituting 83% of Holly's unit shipments in 1952 and over 80% of its business throughout the infringing period. [R. 1423.] The patented heater became an immediate commercial success in Holly's hands. In two years, Holly more than doubled its volume. [Orig. R. 542.] Then Coleman came in. Holly's percentage of the national market decreased when Coleman started infringing and it increased when Coleman ceased infringing. (Appendix A.) These facts alone establish that the loss which Holly suffered is the natural and proximate consequence of Coleman's wrongdoing. But there is additional evidence which points in the same direction.

Holly and Coleman were direct competitors at all levels of distribution and sales. [R. 1024, 1428.] Coleman was Holly's biggest competitor in the sale of wall heaters [R. 1033], and its only competitor in the sale of the patented heaters, or in the sale of any wall heater with a secondary heat exchanger. [R. 1023, 1029, 1425. (233 F. 2d 71, 84).] In this situation the natural and

proximate consequences of Coleman's wrongful acts were lost sales, increased selling costs, forced price reductions, and curtailment of market expansion on the part of Holly.

The certain result of Coleman's infringement was interference with the exploitation of the invention in Holly's hands. The amount of such damage may be computed with reasonable certainty.

In a case involving two rival groups of salmon fishermen, the court awarded to the plaintiffs the profits that they would probably have made if the defendants had not wrongfully forced plaintiffs away from the fishing grounds. Obviously, fishermen's luck is subject to uncertainty. Yet the court stated that:

"The situation disclosed by the testimony renders applicable the principle of law to which we have already alluded that uncertain damages are nonrecoverable only when the uncertainty is due to inability to establish with certainty the cause." (*Blanchard v. Makinster*, 137 Ore. 58, 1 P. 2d 583, 586.)

The present case involves much less uncertainty than fishermen's luck. Speculation is not required.

F. Holly's Lost Profits Are Established With Reasonable Certainty and Are Not Speculative.

Coleman urges that to justify an award based upon Holly's lost profits, the number of additional wall heaters which Holly would have sold if Coleman had not forced Holly to share the market must be proved with absolute certainty. Coleman contends that Holly must prove that each and every purchaser of the infringing heaters would have purchased from Holly if the infringing heaters had not been available. In other words, Coleman urges that

the amount of the damage, as distinguished from the fact of damage, must be proved with absolute certainty. The Courts do not so hold. In one case in which lost profits were awarded, the Court stated with respect to the actual amount of the lost profits that "Of course, there could be no absolute certainty upon such a subject." (*Bemis Car Box Company v. J. G. Brill Co.*, 200 Fed. 749, 758 (3rd Cir., 1912).)

In both antitrust and patent cases involving lost profits, the Courts employ the reasonable probability test. The Courts hold that *if in all reasonable probability the injured party would have made the sales which the wrongdoer made, then the injured party is entitled to recover its lost profits.* (*Bemis Car Box Company v. J. G. Brill Co.*, 200 Fed. 749, 765 (3rd Cir., 1912); *Flinkote Company v. Lysfjord et al.*, 246 F. 2d 368, 392 (9th Cir., 1957); *Livesay Window Company, Inc. v. Livesay Industries, Inc.*, 251 F. 2d 469, 471 (5th Cir., Jan. 24, 1958).)

In applying the "reasonable probability" test in the *Bemis* case the Court reviewed many prior decisions and held that where a patent owner is engaged in the manufacture and sale of a patented device and does not license others to do so, the patent owner may recover the profits which it probably would have made, if its business is established, successful, and well equipped to handle the increased volume. (200 Fed. 749, 765.)

The record clearly shows that Holly meets the requirements of the *Bemis* case because its business was established, quite successful, and well equipped to handle an increased volume of wall heaters equal in number to Coleman's infringing sales.

Holly's business started in 1938 with one employee [R. 1385], but by 1952 when Coleman started selling the

infringing heaters, Holly's sales were on a national basis and amounted to approximately \$3,300,000 annually. [Accounting Ex. 24.]

The financial statements of Holly throughout the infringing period are part of the record. [Accounting Ex. 21-29.] They show that Holly was in good financial condition. Its ratio of current assets to current liabilities was never less than $2\frac{1}{2}$ to 1. It ranged between $2\frac{1}{2}$ to 1 and $3\frac{1}{3}$ to 1 during the years 1953 and 1954 [R. 1452], when the effects of Coleman's infringement were the most pronounced. It had a good credit rating and could obtain additional financing without difficulty. Holly's former President estimated that it could have borrowed at least three-quarters of a million dollars during the years 1953 and 1954. [R. 1450, 1451.]

Holly's sales force extended throughout the United States. Holly had no sales outlets in foreign countries, as Coleman did, but foreign sales have not been included in this accounting because Holly had no patents in other countries.

Holly had its own sales representatives throughout the country. [R. 1023, 1421, 1422, 1452.] In addition, Holly's products were distributed throughout the country by the Crane Company, which is a well-known company with national distribution. [R. 1422.]

Holly produced the wall heaters within its own plant, and the production facilities could have handled the additional volume without difficulty. Holly's plant capacity was increased 50% in late 1953, and its total capacity was very large with respect to what its sales turned out to be in subsequent years. [R. 1447, 1448.]

Holly's actual production of the wall heaters averaged 48,628 annually during the years 1950 through 1956. [Orig. R. 542, Accounting Ex. 7.] Coleman sold 120,582 infringing heaters for an average of 23,000 per year during the infringing period of $5\frac{1}{4}$ years. [Accounting Ex. A.] Holly's ability to handle this additional volume of wall heaters was considered in detail during the accounting proceedings. The problem of carrying finished goods inventory, the problem of carrying accounts receivable, the problem of plant capacity, the problem of raw material inventory and work in process, the matter of possible additional variable expenses, the availability of financing and the avenues that were open to Holly for selling the wall heaters were considered. [R. 1440.] The record clearly shows that Holly, without difficulty, could have manufactured and marketed the Holly-type wall heaters which were made and sold by the Coleman Company. [R. 1440-1453.]

The only period in which Holly could possibly have had difficulty in supplying the additional volume was from October, 1952 to March, 1953. [R. 1445, 1446.] This was because of steel allocations during this period as a result of the Korean War. The allocation was on the basis of orders on hand and it did not impose a flat ceiling on what Holly could get. [R. 1447.] Holly was able to obtain sufficient steel so that by Spring of 1953 Holly was able to produce faster than it could sell and at a rate greater than the combined annual shipments of Holly and Coleman. [R. 1443.] At that time Holly was plagued with the problem of over-production and excessive finished goods inventory, and as a result, Holly had its first major plant lay-off in its history in the summer of 1953. [R. 1444 and Accounting Ex. 32A.] This

was only a few months after Coleman entered the market with the infringing wall heaters in October, 1952, and both the Special Master and the District Court found that the major plant lay-off probably would not have occurred but for Coleman's infringement. [R. 63, Finding X; R. 423, Finding IV.]

A finished goods inventory sufficient to supply the shipments to be made during approximately thirty-three days was a normal working minimum at Holly. [R. 1444.] Accounting Ex. 32A shows the size of the finished goods inventory (FGI) in terms of shipments. The figures for the years 1952-1954 are:

	Size of FGI 1952	Size of FGI 1953	Size of FGI 1954
January	37	18	109
February	40	20	114
March	36	34	105
April	37	37	77
May	31	51	74
June	30	76	63
July	15	109	59
August	20	98	90
September	20	96	72
October	10	104	57
November	10	96	66
December	11	119	85

The inventory was lower than the normal minimum during January and February, 1953. During March and April of 1953, it was about average. In May and June of 1953, the inventory increased substantially, and in July, 1953, the inventory was about three times normal. "Shortly thereafter, Holly had a major plant lay-off as a result." [R. 1444.] Even with the major lay-off, Holly's finished goods inventory remained excessively

high throughout the remainder of the year and during the first quarter of 1954.

There is direct relation between the size of Holly's finished goods inventory and Coleman's entry into the patented wall heater market which Holly previously had to itself. Holly did not sell all of the heaters that it could have manufactured in the year 1953. [R. 1447-1448.]

The best evidence of Holly's ability to make and sell additional patented heaters is the record of what it accomplished when it brought its own patented heaters on the market. During the first year (1951) that Holly sold the patented heater, its wall heater sales rose from 23,935 units to 39,319 units. Thus, Holly was able to increase its production by 60% in a single year and to increase its share of the national market for wall heaters from 11.3% to 19.1%. [Orig. R. 542.]

During the two years (1951-1952) immediately preceding Coleman's entry into the market, Holly's sales more than doubled. They increased from 23,435 units in 1950 to 49,046 units in 1952. [Orig. R. 542.]

Obviously, Holly's business was well-established, quite successful, and very well equipped to handle an increased volume of wall heaters equal in number to Coleman's infringing sales. The requirements set forth in the *Bemis* case are met and Holly is entitled to recover the profits which it is reasonably probable that Holly would have made on the infringing sales.

A more recent case in which the "reasonable probability" test is employed is *Livesay Window Company, Inc. v. Livesay Industries, Inc.*, 251 F. 2d 469 (5th Cir., 1958). In the *Livesay* case the Court found that in all reasonable probability the patent owner would have made

the sales which the infringer made because (1) the patent owner and the defendant infringer were for all practical purposes the only sources of the patented devices, (2) the features of the patented device were the important sales features of the device, (3) the patent owner had the ability to manufacture an additional volume of the devices corresponding in number to those manufactured and sold by the infringer, and (4) the device had a large trade acceptance.

The facts of the present case are “on all fours” with the facts upon which the Court based its opinion in the *Livesay* case, because (1) Holly and Coleman were the only suppliers of the patented wall heater or of any wall heater employing a secondary heat exchanger [R. 1023, 1029, 1425, 233 F. 2d 71, 84] (2) the features which are covered by Holly’s patent are the important sales features of the wall heaters sold by Holly and of the infringing wall heaters sold by Coleman [R. 1015-1020, 1415-1419, 1429], (3) Holly had the ability and could have manufactured an additional volume of heaters corresponding in number to the number of infringing heaters manufactured by the Coleman Company [R. 1440-1453], and (4) the patented wall heaters had a large trade acceptance [Orig. R. 542], as this Court has already found. (223 F. 2d 71, 80.)

Moreover, defendant’s sales department recognized the large trade acceptance of the device. The patented heaters were so popular and Holly’s growth so “fabulous” (Br. 43) that defendant’s sales department demanded that “we must have something that would be strictly competitive with the Holly unit.” [R. 1249.]

Coleman contends that the *Livesay* case is different from the present case because in the *Livesay* case both

the plaintiff and the defendant sold their product under the name "Livesay" and this is the way it was specified in architects' plans so that no other product could possibly meet the requirements of the specification. However, this does not distinguish the two cases because in many instances architects specified wall heaters with secondary heat exchangers or economizers and no other product other than the heaters produced by Holly and Coleman could meet this specification. [R. 1019, 1020, 1427-1428.] Some of Holly's literature was given a standard A.I.A. (American Institute of Architects) file number to facilitate use by architects. [R. 1417. Accounting Ex. 39.] There were no other wall heaters available throughout the infringing period which employed secondary heat exchangers or economizers. [R. 1023, 1029.]

Clearly, the factual situation of the present case meets the requirements set forth in the *Livesay* case. Holly is entitled to its lost profits just as the patent owner was entitled to its lost profits in the *Livesay* case.

Another recent case along the same line is *Electric Pipelines, Inc. v. Fluid Systems, Inc.*, 146 Fed. Supp. 262 (D. C. Conn., 1956), affirmed 250 F. 2d 697 (2nd Cir., 1957) where the Court held that where there are only two suppliers of a patented device who are in direct competition with one another, the patent owner is entitled to recover its possible profits on the infringing sales.

In the *Electric Pipelines* case the Court cited Klooster on "Patent Accountings," Prentice-Hall, Inc., 1930, wherein it is stated at page 463 that:

"Where the complainant and the defendant are the only manufacturers of the product in suit, there is a presumption that the complainant would have pro-

duced and sold to its own profit an amount equal to the amount produced and sold by the defendant. This is especially true where the defendant has deliberately become an infringer and wrongfully trespassed on the complainant's rights, for the law is that in cases of wanton infringement every doubt is to be resolved against the infringer."

A similar case is *National Rejectors, Inc. v. A.B.T. Mfg. Corp.*, 188 F. 2d 706 (7th Cir., 1951) where the Court held that a patent owner may recover its lost profits if the sales of the infringing devices were due to features within the protection of the patent.

In the present case there were only two suppliers of the patented device [R. 1023, 1029, 1425; 233 F. 2d 71, 84] and they were in direct competition with one another at all levels of distribution and sales. [R. 1024, 1428.] Hence, the requirements of the *Electric Pipeline* case and *Klooster* are met. It is *res judicata* and established that the infringement was deliberate and, hence, every doubt should be resolved against the infringer according to *Klooster*.

Likewise, sales of the infringing device were due to features within the protection of the patent [R. 1015-1020, 1415-1419], and hence, the requirement of the *National Rejectors* case is met.

Coleman contends that the *Electric Pipeline* and the *National Rejectors* cases differ from the present case because the sales there were to certain specifications which could be met only by the patent owner and the infringer. However, in the present case only Holly and Coleman sold wall heaters having the patented features. These features were important sales features and were specified by architects and builders. [R. 1019, 1020, 1427, 1428.]

Hence, the present case meets requirements set forth in the *Bemis*, *Livesay*, *Electric Pipelines*, and *National Rejectors* cases and in *Klooster* concerning the proof necessary to establish lost profits with reasonable certainty.

G. Other Wall Heaters Were Available, but They Did Not Have the Sales Features of the Patented Heaters.

Coleman contends that Holly is not entitled to recover its lost profits on the sales made by Coleman because there were other wall heaters available during the infringing period and customers were not compelled to use the patented wall heater or go without heat. However, no other wall heaters had the sales features of the patented heaters, and both the Special Master and the District Court so found. [R. 64, Finding XI; R. 425, Finding VIII.] Coleman's Mr. Newton characterized the patented wall heater as an "odd ball" design showing that it was unique and different. [R. 1640.] Moreover, this Court found that the patented device had unique features in that "a heat exchanger or economizer of this peculiar construction and arrangement has never been embodied in any type of wall heater apparatus prior to its application and use in the Holly device." (233 F. 2d 71, 79.) This Court also found that no other wall heaters employed secondary heat exchangers at all. (233 F. 2d 71, 84.) This was true throughout the infringing period. [R. 1023, 1029.]

In all of the cases cited above concerning awards of lost profits other devices were available and customers were not compelled to use the patented device or go without. In the *Bemis* case, 200 Fed. 749, 757, the Court

found that "other satisfactory boxes were in general use," yet the award was on the basis of the patent owner's probable profits. The same is true of the *National Rejectors* case where the invention concerned a device for ejecting defective coins and the invention differed over the prior art only in that one element had been added. (164 F. 2d 333 (7th Cir., 1947).) Likewise, in the *Electric Pipeline* case the Court found that in the years immediately prior to and for some years following the issuance of the patent, several other arrangements had been sold on a commercial basis for the very same purpose. (132 Fed. Supp. 123 (D. Conn., 1955.)) In the *Livesay* case, 251 F. 2d 469, 470, the patent was concerned with a window frame suitable for residential and commercial buildings, and obviously there were many other window frames available to possible customers.

The most important sales features of the patented heaters are (1) the ability to produce large amounts of heat, such as required to heat a small house, with a compact wall heater without producing excessive wall temperatures, (2) the ability to produce large amounts of heat with the wall heater located in the space between a pair of studs and not being excessively tall or extending too far into the room, (3) maintaining the heat loss of the wall heater through the draft hood independent of flue height so as to provide efficient operation irrespective of the height of the building, and (4) improved air circulation by heating two streams of air and discharging warm air just below the ceiling level and still warmer air about midway along the heater so as to avoid stratification. These features are set forth in the previous opinion of this Court. (233 F. 2d 71, 81.)

Coleman appreciated the importance and uniqueness of these features. In its annual statement for the year

1952, which issued just after the infringing heaters were placed on the market, it stated with reference to its wall heater line that "New models just introduced have improved appearance and some unusual features that make for higher heating performance." [Orig. R. 769.]

Now Coleman argues in its last-ditch effort to avoid payment of damages (Br. 31) that these features may have been important at the beginning, but they were not important throughout the infringing period because other companies were manufacturing American Gas Association-approved wall heaters which must have been competitive due to the A.G.A. approval. However, A.G.A. approval does not signify or even intimate that the A.G.A.-approved heater has features which make it competitive with the patented heater. A.G.A. approval merely signifies that the heater meets certain minimum standards set up to protect the purchasers of the heaters [Orig. R. 52], as discussed in more detail in Section VIII-I of this brief.

Moreover, these features were employed in Holly's sales literature throughout the infringing period, not just at the beginning, as shown by Accounting Exs. 37-43. These features are still important today. [R. 1429.]

Although some of the other manufacturers produced wall heaters having one or possibly two of the above features as techniques improved, none was able to produce a wall heater having all of these features during the infringing period or even today. Coleman's present non-infringing wall heater, which was developed at the end of the infringing period after the wall heater industry had obtained much more experience, does not have the features of Items 2, 3 and 4. Coleman's present heater has a lower box which is materially larger than the lower

box of Coleman's infringing heaters or of Holly's patented heaters. It is "one of the largest big heaters that is on the market." [R. 1623.] Coleman's present non-infringing models do not employ a secondary heat exchanger or economizer; they do not use a secondary heat exchanger to cause the heat loss through the draft hood to be substantially independent of flue height, and they do not heat two streams of air so as to provide improved circulation and reduced stratification of air in the room.

These sales features were made possible by the use of the secondary heat exchanger or economizer. No manufacturers other than Holly and Coleman employed a secondary heat exchanger or economizer during the infringing period. [R. 1023, 1029. 233 F. 2d 71, 84.]

The Royal Jet and the Williams heaters are the only ones which Coleman has identified as being even remotely similar to and competitive with the patented wall heaters. As discussed previously in Section VI on standard of comparison, the Royal Jet heater was not even a wall heater, and the Williams heater did not have a secondary heat exchanger and was not placed on the market until the very end of the infringing period.

Potential customers were concerned only with the external appearance, the size, the safety and the performance of the heaters. These features of the Holly and Coleman heaters were very similar and were made possible by Holly's patented invention.

Mr. Johnson, the President of Holly, was emphatic in his testimony that the patented features of the Holly heater were responsible for its sales. He said:

"Well, from the time that we brought out this patented wall heater, and until Coleman came into

the field with one using the same features, there were a number of other heaters, to be sure, but there were no heaters at all that had the same sales features that we did or that sold to the same class of trade, you might say. We regarded this, you might say, as the kind of competition that a Ford would be to Cadillac. We had the Cadillac, and we had the only real quality heater on the market.” [R. 1425.]

Mr. Cox, of Holly’s sales department, stated that the patented wall heaters “very definitely” gave Holly advantages over its competitors. [R. 1019.] Mr. Cox further testified that:

“When we were the only company with a heater with the secondary heat exchanger, the quality of the equipment and the superior performance of the equipment tended to offset any price competition that we ran into.” [R. 1035.]

Also, there was no heater on the market which was competitive with the patented heater “in terms of the way it was built.” Architects and builders frequently specified secondary heat exchanger-type wall heaters. [R. 1417, 1421, 1427-1428.] When a wall heater with a secondary heat exchanger or economizer was specified, only the patented heater would serve, regardless of the size required. [R. 1019, 1020.]

Thus, the patented heater was unique and there were no other heaters available which had the same sales features or which were directly competitive. The mere fact that other wall heaters were available does not negate the finding that in all reasonable probability, Holly would have sold an additional volume of heaters corresponding in number to the infringing sales by Coleman if Coleman had not appropriated Holly’s leading product.

H. The Combined Sales of Holly and Coleman
Follow a Trend Established by Holly Prior
to Coleman's Infringement.

There is no dispute concerning the unit sales of the patented wall heaters by Holly and by Coleman and their percentage relationship to the total national sales of wall heaters by all manufacturers. [R. 62-63, 425.] These figures are shown in the charts of Appendix A-Enlarged and Appendix B to this brief which are taken from R. 323 and 404.

The chart of Appendix A shows the percentage of the national market commanded by the patented wall heaters and the portions which were supplied by plaintiff and by defendant. The chart shows that the percentage of the national market commanded by the patented wall heater increased rapidly to 18.4% in 1951, the first full year during which the heaters were sold. After Coleman entered the market in late 1952 Holly's sales decreased markedly; hence, Coleman took sales away from Holly. The combined sales of Holly and Coleman commanded a slowly increasing percentage of the national market throughout the infringing period.

The chart of Appendix A shows that there were no marked changes in the combined percentage of the national market when Coleman entered the field. It increased only 1.6% in 1952 and only 3.4% in 1953, the first full year of the infringing sales. Such increases are to be expected for a superior product which achieved immediate commercial success and which had wide trade acceptance. Hence, Coleman's sales were largely due to the superior features of the infringing wall heaters and the large customer demand for them, and not to factors contributed by Coleman. It is reasonably probable that

Holly would have sold additional wall heaters equal in number to Coleman's sales if Coleman had not supplied the infringing heaters.

The Chart of Appendix B shows the total unit sales of patented wall heaters, and the portions which were supplied by Holly and Coleman. This chart further emphasizes the fact that Coleman's sales were largely due to the superior features of the infringing wall heaters, and not to factors contributed by Coleman. Holly's sales of the patented wall heater increased rapidly during the years 1950-1952. Coleman entered the market at the end of 1952, and for the next three years the combined sales of Holly and Coleman merely follow a trend or slope which was created by Holly prior to Coleman's entry in the field. Sales by both parties declined in 1956 due to in large part to a general decline in construction work and to strikes in the construction industry. [R. 50.]

Coleman argues that its sales of wall heaters increased after it introduced its non-infringing line of wall heaters and it contends that it sold 10,399 wall heaters in the first four months of 1957, compared to 9,303 wall heaters during the corresponding months of 1956. (Br. 33.) Coleman contends that this shows that none of its business would have gone to Holly.

However, these figures have no significance because Coleman sold the infringing heaters during the first $2\frac{1}{3}$ months of this period—up to March 11, 1957.

I. Approval of a Heater by the American Gas Association Does Not Signify That the Heater Is Competitive With the Patented Heater.

Coleman places major emphasis on its contention that the other wall heaters approved by the American Gas Association (A.G.A.) were directly competitive with the Holly heater by virtue of the A.G.A. approval.

Coleman's contention that Holly's Mr. Hollingsworth made clear that the upgrading of competitive heaters to a level directly competitive with Holly was made compulsory by 1954 is incorrect. Mr. Hollingsworth merely stated that the A.G.A. testing procedures were changed in 1954. [R. 1161-1162.] A.G.A. approval merely means that the heater in question meets certain minimum standards set up to protect the purchasers of heaters. [Orig. R. 52.] A.G.A. approval of a wall heater certainly does not signify or even intimate that the A.G.A.-approved heater is a type which would be competitive with the patented heater. The A.G.A. regulations could not have required that all wall heaters employ the patented features because these features were covered by Holly's patent and were not available to the trade.

Coleman has submitted statistics (Br. 27) purportedly showing a correlation between Holly sales and the number of manufacturers of A.G.A.-approved wall heaters during the infringing period. However, there is no evidence in the record concerning the type of heaters produced by these A.G.A.-approved manufacturers or the volume of sales of the A.G.A.-approved heaters. There is not even any evidence in the record which shows that the A.G.A.-approved heaters were actually placed on the market after being approved. The number of other A.G.A.-

approved manufacturers standing alone is of no significance. To take an extreme example, each A.G.A.-approved manufacturer other than Coleman and Holly could have produced one heater each. Yet, following Coleman's argument, Holly's sales should vary inversely with the number of A.G.A.-approved manufacturers.

To clearly show that there is no correlation between the number of manufacturers of wall heaters and the sales of the patented wall heaters, the number of A.G.A.-approved manufacturers have been superimposed in graph form on the chart of Appendix A. The percentage of the national market commanded by the patented wall heaters, as shown by the combined sales of Holly and Coleman in the chart, starts from a level created by Holly prior to Coleman's entry into the field. Thereafter the combined sales commanded a slowly increasing percentage of the national market, regardless of the number of manufacturers which were producing other types of wall heaters. The number of manufacturers varied widely throughout the infringing period, but the percentage of the national market commanded by the patented wall heater did not.

Moreover, the chart demonstrates that there is no correlation between the number of manufacturers making wall heaters and either Coleman's sales or Holly's sales, both of which should be affected equally under Coleman's thesis. From 1952 to 1953 the number of manufacturers increased from 16 to 19 and Holly's percentage of the national market decreased. However, Holly's decrease was due to the directly competitive heater which Coleman placed on the market just three months prior to that period. From 1953 to 1954 the number of manufacturers decreased markedly, yet Coleman's percentage of the national market went down slightly and Holly's sales

did not increase in proportion to the decrease in the number of manufacturers. From 1954 to 1955 the number of manufacturers increased almost to the same extent as from 1952 to 1953, yet Holly's sales and Coleman's sales changed very little. From 1956 to 1957 the number of manufacturers almost doubled, and so, according to Coleman's thesis, Holly's sales should have dropped. Yet Holly's percentage of the national market for the first three months of 1957 increased substantially. Holly's percentage of the national market for the second quarter of 1957, the last period as to which there is any evidence, increased still further to 20 per cent. [Accounting Ex. 47.]

Clearly the number of other manufacturers had virtually no effect upon the percentage of the national market commanded by Holly or by Coleman, or upon the percentage of the national market commanded by the total sales of the patented wall heater, as shown by the combined sales of Holly and Coleman. However, Coleman's sales of the infringing heaters did have a direct effect upon Holly's sales.

Thus, the other manufacturers of wall heaters produced wall heaters which were noncompetitive with the patented wall heaters. Only the infringing heaters sold by Coleman were directly competitive with the Holly heater.

The record clearly shows that Coleman made a profit of at least \$1,186,537.27 by its wrongful appropriation of Holly's invention. The record clearly shows that it is reasonably probable that Holly would have made a profit of \$1,450,661.78 if Coleman had not appropriated Holly's wall heaters. Since Holly's lost profit is larger than Coleman's actual profit, the former is the proper measure of damages.

IX.

Holly's Lost Profits on Its Own Sales Due to
Coleman's Infringement.

The Special Master found:

"That defendant's competition caused the plaintiff to reduce the prices on its heaters, to increase its selling efforts and expense, interfered with its market expansion, and that plaintiff's major lay-off probably would not have occurred but for the infringement." [R. 63.]

However, the Master did not make a specific award of damages to compensate Holly for these injuries because of the difficulty in computing the dollar value of the injuries. The District Court made such an award on the basis of the discretionary power of the Court to increase the damages as actually computed in order to provide full compensatory relief. (35 U. S. C. 284.)

It is well established that the damages as actually computed may be increased in the discretion of the Court to compensate for injuries which are real but difficult to compute in detail. Bad faith or unfairness on the part of a defendant is not required to warrant such an increase.

In *Activated Sludge, Inc. et al. v. Sanitary Dist. of Chicago*, 64 Fed. Supp. 25, 36 (D. Ill., 1946), affirmed 157 F. 2d 517 (7th Cir., 1946) Cert. denied 330 U. S. 834 (1947), the Court stated:

"I conclude that the extra damages recoverable thereunder may be punitive if the circumstances so warrant, but include also damages purely compensatory which are elusive but which plaintiffs ought to recover, not as punishment but as reimbursement for what plaintiffs have actually lost."

In *Edwin H. Armstrong v. Emerson Radio & Phonograph Corp.*, 132 Fed. Supp. 176, 179 (D. C. N.Y., 1955), the Court stated:

"There is no doubt that the damage provision of the patent law, 35 U.S.C. 284, is remedial, and the damages contemplated may be awarded whether the wrong was intentional or unwitting. Walker on Patents, Dellers Ed., Sec. 835. Public policy dictates that where the injury is to property, intangible aspects of the damage claim which relate to the complexities of our industrial society be satisfied by the imposition of additional damages, which though in some aspects punitive, are inherently remedial."

Coleman contends that there is no evidence in the record showing that Coleman caused injury to Holly in the form of forced price reductions, increased selling expenses, or curtailment of Holly's market expansion. Coleman bases its argument primarily on the contention that other A.G.A.-approved manufacturers were supplying two-thirds of the wall heater market and their competition must have affected Holly more than Coleman's competition.

However, as discussed previously in Section VIII-I of this brief, the number of A.G.A. manufacturers or the yearly variations in the number of A.G.A. manufacturers has little or no significance with reference to Holly's losses. None of the other manufacturers were selling wall heaters having the superior features of the patented heaters. [R. 1023.] Only the Coleman heaters were directly competitive with the Holly heaters. [R. 1425.]

Coleman also contends that when it ceased selling the infringing heaters, Holly's sales remained about the same in terms of the national market, and, hence, there is no

direct relationship between Coleman's infringement and Holly's sales. The evidence shows otherwise. Holly's percentage of the national market was 17.7% in 1956. It increased to 19.1% in the first quarter of 1957, which is the quarter in which Coleman was forced to discontinue its sales by the civil contempt order. Holly's percentage increased to 20% of the national market in the second quarter of 1957. [Accounting Ex. 47.] This is the last date on which statistics are of record in this case.

Moreover, the effect of Coleman's infringing sales was more pronounced during the early part of the infringing period than during the latter part. The wall heater industry did not exist until after World War II. [R. 1430.] During the early years of the industry, it was plagued with many problems solved by the patented heater. (233 F. 2d 71, 81.) As a result, the patented wall heater achieved immediate commercial success in Holly's hands in 1951 and in Coleman's hands in 1953.

Holly was able to sell its wall heaters at prices above other wall heaters before Coleman started selling the infringing heaters. [R. 1425.] However, Coleman's sales of the infringing heaters forced Holly to make price reductions, and some of the reductions were of sufficient magnitude that they were outside the jurisdiction of Holly's Sales Department and had to be made by the President of Holly. [R. 1427.]

Mr. Cox, of Holly's Sales Department, testified that in many instances Holly had to make price reductions or lose the customer. [R. 1027.] Mr. Cox produced invoices and a memorandum [Accounting Exs. 11, 12 and 13] showing that in order to keep a particular customer in Florida from buying the Coleman heaters, Holly had to reduce its price on the popular 35,000 BTU heater

from about \$41.30 to \$36.30, a reduction of \$5.00 per heater. [R. 1028-1029.] This constituted a 12% reduction in price.

Coleman's sales of the infringing heaters also required that Holly's selling effort and expense be increased. [R. 1026-1035.] For example, with reference to the Florida situation where Holly had previously had the field pretty much to itself due to its superior product, Mr. Cox had to make roughly six trips within one year to try to "put out the fire" caused by Coleman's sales of the infringing heaters. [R. 1427.]

The Special Master computed a minimum figure of \$280,000 for Holly's damages through reduction of prices and increased selling costs forced by Coleman's infringement. [R. 50.] The Master pointed out that during 1952, Holly's average sales profit per unit was \$14.52; for 1953 the sum of \$12.46; for 1954 the sum of \$12.50; for 1955 the sum of \$14.11; for 1956 the sum of \$11.22; and for the first three months of 1957 the sum of \$6.24. The Special Master pointed out that the low figures for 1956 and 1957 could not be attributed solely to the infringement because evidence shows that the building industry generally was at a low ebb caused in part by strikes. However, the Special Master pointed out that the loss of approximately \$2.00 per unit in 1953 and 1954 and 50¢ per unit in 1955, under the evidence, could well be attributed to the reduced prices and increased sales costs caused by the infringement. Based upon the number of units sold, Holly's loss computed on this basis would be over \$280,000. [R. 50.]

This provides a rough measure of Holly's damages due to forced price reductions and increased selling expenses. This computation does not include Holly's loss such as

Holly's loss due to curtailment of its market expansion caused by the infringement.

Holly's growth from a small operation in 1938 to a profitable business having annual sales of \$3,300,000 in 1952 was predicated in large part on the development of leading products, as discussed in the Statement of the Facts at the beginning of this brief.

Prior to Coleman's tortious conduct, Holly was successfully employing the patented wall heater to expand its marketing channels, particularly in Holly's expansion outside the State of California. [R. 1419.] In addition to being useful in the expansion of Holly's marketing channels, the patented wall heaters helped Holly obtain dealers who would sell other products manufactured by Holly. [R. 1420.]

Holly's out-of-state business was 15.7% of its California business in 1950, the year in which the patented wall heaters were introduced. In 1951 this increased to 26%. In the second half of 1952 when Coleman started selling the infringing heaters the figure decreased to 21.2%, in 1953 it dropped to 20.3%, and in 1954 it dropped to 14.4%. [R. 1424.] This occurred despite Holly's policy to push sales in its out-of-state market. [R. 1446.] It is therefore clear that Holly's out-of-state business suffered because of Coleman's infringement by which Coleman interfered with the expansion of Holly's marketing channels.

The 33 $\frac{1}{3}$ % increase awarded by the District Court is necessary in order to at least partially restore Holly to the condition it would have been in had the infringement never occurred.

X.

Coleman's Contempt of the Final Injunction Is Purely a Question of Fact Which Was Resolved by the District Court After Observing Tests of the Accused Devices and Resolving Conflicting Testimony.

The first infringing heaters manufactured by Coleman were equipped with a four-foot economizer which received a large proportion of its air from the confined wall space around the lower box of the heater. On June 23, 1953, after Holly had accused Coleman of infringement but before suit was brought, Mr. Dawson, counsel for Coleman, gave solemn written assurance that Coleman had ceased infringement and enclosed a drawing purporting to show what Coleman had done. The drawing [Orig. R. 516] shows a solid member located between the lower box and the upper portion of the heater where the secondary heat exchanger or economizer is located. Such a solid member would prevent any movement of air from the lower box to the upper box. Mr. Dawson wrote:

"In the drawing you will note that the second or upper box 10 (the economizer) is closed at its bottom and that it is open only at its forward intake end 11. None of the air from about the lower box is thus able to enter the upper box 10." [Orig. R. 514.]

Had Mr. Dawson's statement been true, infringement might have been avoided, but Mr. Dawson's statement was far from Coleman's performance. What Coleman actually did in its second design (which employed the three-foot economizer and which constituted most of Coleman's sales) was merely to constrict the opening be-

tween the economizer and the space in the wall around the lower box. But the space for communication was still substantial. This reduced the flow of air into the economizer from the space in the wall around the lower box, but did not prevent it. The District Court recognized Coleman's failure to live up to its promises, and this appellate Court quoted the District Court's finding with approval, saying:

"That after Holly had sent notice of infringement of the patent in suit to Coleman, it represented to Holly that it was redesigning the Coleman wall heaters, Models No. 64, 67, 68 and 69 to prevent the flow of air upward into the second box or economizer from the conduit provided outside the first box and inside the wall, but that Coleman's redesigned wall heaters of these models which were manufactured and sold by Coleman on or after November 2, 1953 and which employed its three-foot economizer, did not prevent such flow of air; that Coleman's wall heaters of the said four models and sold by it on or after November 2, 1953 employed its so-called 3-foot economizer which was adapted to receive air flowing upward outside the first box and inside the wall as taught and claimed by the patent in suit. . . ." (233 F. 2d 71, 82.)

When the injunction became final, Coleman tried another maneuver, similar in many respects to the unsuccessful one involved in its change from the four-foot economizer to the three-foot economizer, but even more blatant. This time Coleman continued to sell heaters that were identical to those that had been finally adjudicated to infringe, except for the addition of a so-called "chute" in the cartons in which the wall heaters were sold, along with instructions that the chute should be installed inside

the heaters. This chute, which could be, and sometimes was, installed in the bottom of the economizer, did not reduce the passageway for air into the economizer from the space inside the wall around the lower box, but merely made this passageway a little longer. [R. 551.]

“Under these circumstances infringement . . . seems so clear that there was no reason for requiring the complainant to proceed by supplemental bill rather than by motion to punish for contempt.” (*Heywood-Wakefield Co. v. Frank & Son*, 98 F. 2d 772, 773 (2d Cir., 1938).)

As Judge Learned Hand stated in the case of *Gordon v. Turco-Hakvah Co.*, 247 Fed. 487, 490, 491 (2nd Cir., 1917):

“We follow rather the practice . . . that in cases of a colorable evasion of the decree the District Court had the discretion . . . to proceed directly under petition in contempt. . . .”

Holly brought a proceeding in civil contempt to enjoin this second clumsy subterfuge of Coleman, and there was a trial before the District Court.

Coleman, in spite of the fact that anyone could see that the passageway for air into the economizer from around the back and sides of the lower box was still open even with the chute installed, contended that the chute effectively prevented air from coming up from the space inside the wall around the lower box into the economizer and offered to establish this fact by smoke tests of the accused heaters conducted in the presence of the District Court. In making the offer, Coleman's counsel asserted that a view of the tests by the District Court would “put the matter at rest.” [R. 445.] Holly likewise offered to run tests of the accused heaters, employing an instrument called a Titrillog.

The District Court witnessed both sets of tests and heard testimony about the tests from witnesses for both parties prior to and during the conduct of the tests.

At the original trial, Coleman produced testimony about similar smoke tests from three so-called experts, Messrs. Blazier and Petoﬀ, of the University of Wichita, and Mr. Kice, of Coleman's staff. [Orig. R. 384, 396, 283.] These witnesses were conspicuous by their absence during the contempt proceedings. They were replaced by Mr. Harmon, an assistant professor of the University of California, and Mr. Newton, one of Coleman's vice presidents, neither of whom had testified at the original trial. New legal counsel appeared at this stage of the proceedings also, Mr. Stanbury.

The tests performed by Messrs. Harmon and Newton were conducted with pipe cleaners of various lengths dipped in titanium tetrachloride which gave off a white smoke consisting of solid particles of titanium dioxide. This smoke was introduced into the infringing heaters at various points and an attempt was made to control the amount of smoke introduced by regulating the length of the pipe cleaners. Then attempts were made to estimate by eye the relative amounts of the smoke coming out of the heaters at various points, one of the purposes of this approach being to demonstrate the proportion of air coming into the economizer from around the back and sides of the lower box when the chute was installed at the base of the economizer and when the chute was not present.

Professor Harmon was relatively candid in his testimony about the tests. He readily admitted that he had had no prior experience in testing heaters and that he had never before employed titanium dioxide in smoke

tests. [R. 548.] He agreed that in the tests he never really measured anything but simply made estimates based on his eye. [R. 547-548.] He also admitted that the titanium dioxide employed in the tests tended to be deposited within the heater [R. 548], from which it is plain that the amount of smoke coming out of the heater was not the same as the amount of smoke introduced. He agreed further that he sometimes knew in advance the length of the pipe cleaners employed [R. 550] and upon which the volume of smoke introduced purportedly depended, so that his opinion of how much smoke came out could have been influenced by what he wished to see. He admitted that he had never run a test that would determine what proportion of the air issuing from the upper grille of the economizer came up from behind the back and sides of the lower box [R. 552-553], but when pressed by the Court, ventured the opinion that the chute cut off about half of the air entering the economizer from the space inside the wall around the back and sides of the lower box. [R. 555.]

Mr. Newton, Coleman's vice-president, was a biased witness, or, as Coleman's counsel called him during oral argument, "a partisan person." [R. 723.] His testimony was influenced more by the exigencies of the litigation than was that of Mr. Harmon. But he also intimated that the chute cut off no more than half of the so-called "infringing" air. [R. 645.] At the same time, however, his bias led him to testify to the proportions of "infringing" air; *i.e.*, that coming into the economizer from the space around the lower box, with great particularity, in fractions of a per cent. Thus, Mr. Newton, on the basis of the tests which both he and the District Court observed, stated that without the chute, the Coleman economizer

drew 1.33% of its air from the “pink” or infringing space; *i.e.*, that within the wall around the lower box, and that this figure was reduced to 0.6% when the chute was installed. [R. 645.] Coleman contended that both proportions were too small to influence the operation of the heater, which amounts to a contention that it never had infringed the patent because it never had drawn an effective proportion of air into the economizer from the space in the wall around the lower box. This, plainly, was an attempt on Coleman’s part to retry the issue of infringement, which was already *res judicata*.

The testimony of Mr. Newton and Mr. Harmon to the effect that the proportion of air coming into the economizer from the space inside the wall around the lower box was negligible was based on the assertion that there were two important sources of air coming into the economizer that had not been considered before. According to Coleman’s counsel, the expert that Coleman sent to California to confer with its lawyers *neglected* to call attention to these sources [R. 1908] at the original trial, so that evidence about them was not presented at the original trial. Nothing could be further from the truth. Coleman’s Kice testified in the trial on infringement as to the existence of the so-called “green” air and he stated unequivocally that the so-called channel for “brown” air did not exist—“there is no way for it to get in” the economizer. [Orig. R. 350-351, 360-361.] But assuming Coleman erroneously misled the court, this was not the only opportunity that Coleman had to call attention to these alleged newly discovered important air sources. Mr. Newton testified during the contempt proceeding that he had known about the sources as early as April or May of 1956. [R. 573.] But no mention of these air sources is found in Coleman’s

motion for a new trial on the ground of newly discovered evidence, which was made in May, 1956.

In short, Coleman's own conduct indicates that these air sources are of no consequence, and that Coleman itself so regarded them until it began to look for a straw to grasp after Holly instituted the contempt proceedings.

The two "newly discovered" sources of air on which Coleman set such great store during the contempt proceedings were labeled "green" and "brown" to distinguish them from the "pink" or "infringing" air which came into the economizer from the space in the wall around the lower box.

The "green" air was supposed to originate within the lower box at its sides near the top and to pass into the economizer directly from this region. But as Mr. Hollingsworth of Holly pointed out, this "green" air actually passes into the stud space in the wall behind the lower box, before it enters the economizer [R. 622] so that it is really "infringing" air, and during the progress of the tests in the presence of the District Court, Coleman's counsel admitted that the "green" air was of "minor importance" and would not even have subjected it to test save for the District Court's request. [R. 620-621.]

Coleman placed its major reliance on the "brown" air, which could pass through a joint in the top of the lower box into the economizer. Mr. Newton called this joint a "scoop." It was Coleman's contention that the "brown" air passing through this joint or "scoop" was relatively large in amount, and that the air entering the economizer from the space inside the wall around the back and sides of the lower box was negligible, whether or not the "chute" was employed.

Mr. Newton testified that the “scoop” had always been present in the Coleman heaters and in an excess of zeal, even asserted that the scoop was actually designed to proportion the flow within the lower box and to send part of the “brown” air directly into the economizer. [R. 582.] But if any such function was actually designed into the original heaters back in 1952, it is inconceivable that it would not have been brought out at the trial while Mr. Giwosky, the designer of the infringing heaters, was still at Coleman (233 F. 2d 71, 84), or in the petition for a new trial. The only thing that Mr. Newton’s testimony about the “brown” air establishes is that he was desperately seeking an escape for Coleman in the contempt proceeding and did not let veracity interfere with his object.

Other evidence pointing to the lack of significance of the “scoop” and the “brown” air that may pass through it into the economizer is the fact that it is not shown in Coleman’s production drawings of the heater [Accounting Ex. 44, R. 1662], nor in the Giwosky patent [Accounting Ex. B], which Coleman’s design engineer Fertig testified was followed *exactly* in the construction of the heaters with the three-foot economizers. [R. 1051.] Fertig’s testimony is of particular importance on this point since he had worked with Giwosky as a draftsman in designing the infringing heaters. [R. 1057.] Coleman’s Mr. Newton, on cross-examination concerning Coleman’s assembly drawing of one of the infringing heaters (a Model 67), admitted that the flange or so-called “scoop” bears directly against the front edge of the top of the lower box, and that if it were so constructed, it would seal off the so-called “brown” air flow to the economizer. [R. 1662.] An inspection of Coleman’s heater [Trial

Ex. 24] will quickly show the physical insignificance of the so-called "scoop," which is in reality no more than a joint between two overlapping pieces of sheet metal.

Mr. Landsberg, an engineer in the employ of Consolidated Engineering Company, who had made tests to determine the relative air flows into Coleman's economizer with a scientific instrument called a Titrilog and who had testified about these tests during the original trial, readily admitted during the contempt proceeding that he had not then taken into account the flow of so-called "brown" air into the economizer through the so-called "scoop." [R. 558.] But the insignificance of the "brown" air flow was quickly determined by Mr. Landsberg in another set of tests that he ran during the contempt proceeding in the presence of the District Court. In these tests, Mr. Landsberg measured air flows in the Coleman heater with the crack at the "scoop" open and with the crack sealed with tape, employing the "Titrilog" as a measuring instrument—an instrument incidentally which had received praise and approval from Coleman's witness Blazier at the original trial. [Orig. R. 393-394.]

Mr. Landsberg's tests showed that with the "scoop" open, the air coming to the economizer from the lower box amounted to 19.4%—a composite of that coming from the confined area around the lower box and the "brown" area. When the scoop was taped shut, so that air could enter only from the confined area around the lower box, the percentage dropped to 14.9%. [R. 654, 686-687.] In other words, the "brown" air amounted to the difference of the percentages 19.4%—14.9%, or 4.5%. In short, Mr. Landsberg's tests showed that with the "brown" air excluded, the economizer still received a large propor-

tion of the air from the space in the wall around the lower box.

Mr. Landsberg did not attempt to measure the relative flows from the "green" and "pink" areas into the economizer [R. 687], for, as Mr. Hollingsworth had already testified, the "green" air was really "infringing" air because it merged with the "pink" air in the stud space within the wall before it entered the economizer. [R. 622.]

Coleman also contends that Holly offered no evidence and did not prove that the heaters with the chute infringe its patent. This is not true. Holly showed that the wall heater structure was exactly the same as that previously adjudicated to infringe, except that the chute was added. [R. 27.] Holly also showed by affidavits that the chute did not alter the basic operation of the wall heaters previously found to infringe. [R. 28, 30, 33.] The District Court witnessed inter partes tests of the wall heaters and Mr. Landsberg re-ran his tests before the Court and showed that there was no substance to Coleman's contention that he made a "fantastic" error. [R. 654, 686-687.] He showed that there was a substantial flow of air up the space between the lower box of the heater to the economizer or secondary heat exchanger, and the District Court agreed with him. [R. 766.]

The fact of infringement by the heaters modified by the "chute" was corroborated by Coleman's Mr. Berry during the accounting, whose tests showed that with this flow of air completely shut off, the wall temperatures were too high and the heater would not pass A.G.A. regulations [R. 1556, 1560, 1566], thus demonstrating the importance of the air flow observed by Landsberg.

The District Court was accorded an opportunity to estimate flows of air during the smoke tests conducted by

Coleman during the contempt proceedings. His eyes did not observe the result that Mr. Newton testified to from the same tests; namely, that only about 1% of the air came into the economizer from the space inside the wall around the lower box. Instead, the District Court observed that:

“The test here, as suggested this morning seems to me to be whether enough air enters the economizer from the pink or infringing area to affect materially the efficiency of the heater. Without the chute it is adjudicated that it does. The best estimate that I can make, doing some calculations as I did during the course of the argument, is that if around 20 percent of all the air in the economizer as coming out of the economizer is comprised of brown, green and pink air, that approximately 6 percent would be brown, the remainder would be green and pink, and using the best estimates we have and placing them in round figures, the evidence indicates that the chute cuts off two-thirds, say two-thirds, of the air to the economizer from the pink area.

“I must find that the elimination of two-thirds of the air from the pink area still leaves the air from the pink area materially affecting the efficiency of the heater, and that therefore it constitutes an infringement.” [R. 766.]

The eyes of the District Court were just as good as those of Coleman’s Messrs. Newton and Harmon, and the District Court’s conclusion was based upon what it actually saw in the way of physical evidence. Messrs. Newton and Harmon, “partisan persons,” were inherently influenced by their desire to show non-infringement. The District Court was unbiased and it found infringement based upon what it saw. Accordingly, the District

Court's conclusion is entitled to great weight. "Appellate courts should be slow to impute to local courts a want of diligence or perspicacity." (*Cavness v. United States*, 187 F. 2d 719, 723 (9th Cir., 1951).) And this is particularly true of a lower court's finding of fact in a case involving the conflicting opinions of experts and inter partes tests where the Court can see as well as the experts what is occurring.

Rule 52(a) of the Federal Rules provides in part:

"Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of witnesses. . . .

"To no type of case is this [clause] more appropriately applicable than to the one before us, where the evidence is largely the testimony of experts as to which a trial court may be enlightened by scientific demonstrations . . . the record shows, the trial judge visited laboratories with counsel and experts to observe actual demonstrations . . ."

(*Graver Tank and Mfg. Co. v. Linde Air Products Co.*, 339 U. S. 605, 611.)

This Court has long recognized the heavy weight which must be accorded the findings of a trial court in these circumstances.

"As well pointed out in *Hazeltine Research v. Admiral Corp.*, 7th Cir., 183 F. 2d 953, where as here, the decision turned upon questions of fact, an appellate court is not in a position to try such fact questions *de novo*." (*Laishman v. General Motors Corp.*, 191 F. 2d 522, 529 (9th Cir., 1951); *Bergman v. Aluminum Lock Shingle Corp. of America*, 251 F. 2d 801, 811, 812 (9th Cir., 1957).)

The finding of the District Court on the issue of contempt is a finding of fact, supported by the evidence and is particularly strong since it depends upon what the Court actually saw with its own eyes during the conduct of the tests. It is not clearly erroneous and must be sustained.

XI.

The Wanton Character of Coleman's Acts Warrants the Increase in Damages and Attorneys' Fees Which Have Been Awarded by the District Court.

The award of attorneys' fees and the punitive increase in damages is well justified because:

(1) Coleman and Holly were direct competitors in the sale of wall heaters, but after Holly introduced its patented wall heater, Coleman found that its wall heater then in production was not competitive. [R. 1249.] Coleman thereupon deliberately copied the Holly heater with immaterial variations. (233 F. 2d 71.) Punitive damages are justified where a patented invention is deliberately copied without material variation. (*Wensel v. Gold Hill Hardware Mfg. Co.*, 21 F. 2d 974 (So. Dist. Cal., 1927).)

(2) When the possibility of infringement of Holly's patent rights was raised at Coleman, its president, Mr. Sheldon Coleman, instructed his design engineer to go ahead and said that "he would take care of that matter when it came up." [R. 1252.] He elected to ignore Holly's rights. Punitive damages are justified where the defendant's acts are without regard to propriety or the rights of others, or are careless of the consequences and yet without malice. (*National Folding Box and Paper Company v. Robertson's Estate*, 125 Fed. 524, 526 (C. C. Conn., 1903).)

(3) Coleman requested a license under Holly's patent and was refused [R. 1436], yet Coleman went ahead and placed the device on the market only one month after being refused. This shows that Coleman was of the opinion that its heaters infringed at the time it placed the heaters on the market. Punitive damages are justified where the infringement is willful. (*Bristol Laboratories v. Schenley Laboratories, Inc.*, 117 Fed. Supp. 67, 81 (S. D. Ind., 1953).)

(4) It is *res judicata* that Coleman's infringement was willful, intentional and deliberate throughout the infringing period, and this is sufficient to justify punitive damages. (*Bristol Laboratories v. Schenley Laboratories, Inc.*, 117 Fed. Supp. 67, 81 (S. D. Ind., 1953).)

(5) Coleman, or its agent Mr. Dawson, was careless, if not actually wanton, in its investigation of infringement of the Holly patent because Mr. Dawson, as patent counsel for Coleman, testified that he was not familiar with the various production models of the Coleman heaters, that he did not know whether the statements he made about the heaters were actually true, and that he did not see any tests of the heaters prior to the commencement of the present lawsuit. [R. 786.] Punitive damages are justified where defendant's belief that it was not infringing was due to carelessness in ascertaining the facts, or carelessness in construing the scope of the invention. (*Russell Box Company v. Grand Paper Box Company*, 203 F. 2d 177, 183 (1st Cir., 1953), Cert. denied, 346 U. S. 821.)

Punitive damages are justified where the infringement was conscious and deliberate and the resulting litigation was protracted, vexatious and expensive. (*Overman Cushion Tire Company, Inc. v. Goodyear Tire & Rubber*

Company, Inc., 66 F. 2d 361 (2nd Cir., 1933); *Krentler-Arnold Hinge Last Company v. Leman*, 24 F. 2d 423, 425 (D. C. Mass., 1928).) The record in the present case is replete with evidence which more than meets these requirements as follows:

(6) After Holly served a formal notice of infringement on Coleman, Coleman misrepresented that it was changing the structure so that there was no possibility of any flow of air from the space about the lower unit into the upper box. [Orig. R. 513.] A drawing was sent to Holly showing that the proposed structure would have a *solid barrier plate* extending throughout the space between the lower and upper boxes of the heater. [Orig. R. 516.] However, Coleman did not do this. The changed structure was essentially the same as Coleman's previous structure, and Holly found it necessary to test the Coleman structure and show that Coleman's new structure infringed the Holly patent the same as the previous structure.

(7) Coleman improperly installed the heaters employed in the inter partes tests that were run at Wichita in an effort to show non-infringement. [Orig. R. 476, 594.]

(8) Coleman was and is stubbornly litigious and has burdened Holly with "protracted, vexatious, and expensive litigation" even to the point that a contempt action was required in order to keep all of the previous litigation from being rendered a nullity.

(9) Coleman withheld records that were relevant in the accounting. This is particularly true with respect to Coleman's reports to the government which constitute the entire basis for its arbitrary allocation of expenses. [R. 1744.] It also failed to keep separate records of the

profits made from the infringement. [R. 835, 1732.] These acts and omissions are certainly grossly careless, if they do not amount to actual and deliberate concealment of pertinent facts.

(10) Over the repeated objections of Holly's counsel, Coleman endeavored to retry this action on the issue of infringement in the accounting proceedings and presented much evidence before the Special Master and the District Court which had already been considered and rejected by the Courts on this very issue. By way of example, Coleman's Mr. Newton gave testimony before the Special Master to the effect that the Coleman heater derived only a small percentage of the air for its secondary heat exchanger or economizer from the space about the lower box, and that this air was leakage only. Yet he testified with respect to the data upon which he based his computation that, "I used the data which I took from the record in the contempt part of the trial." [R. 1593.] Coleman's legal counsel, Mr. Stanbury, corroborated this by stating, "It is in Volume III (of the contempt transcript) and it describes it when the court was present." [R. 1594.]

(11) During oral argument before the Special Master and before the District Court, Mr. Stanbury urged that Mr. Newton's computations were based upon something new and that the results shown by these computations render the assessment of damages in the present case like the assessment of damages in a wrongful death action after the supposedly dead person walks into the court room. [R. 1826, 1866.] However, he was merely re-arguing the very same evidence which the District Court had previously rejected. As Mr. Stanbury pointed out when the evidence was presented before the Special Master, "this is not new evidence." [R. 1593.] "It is in

Volume III (of the contempt transcript) and it describes it when the Court was present.” [R. 1594.]

(12) In this appeal Coleman is still endeavoring to retry the issue of infringement and on the basis of the *same data* which the District Court rejected, and this data is the very same type which the District Court and this Court rejected previously. For example, before the Special Master [R. 1814], before the District Court [R. 1863-1866], and in its opening brief before this Court (Br. 6, 11, 48, 50, 71, 75), Coleman asserts that the data which it presented in the contempt trial concerning percentages of air flow are correct and that this data makes all of the other proceedings concerning infringement incorrect. As discussed in Sections I and II of this brief, the prior data was not incorrect at all.

(13) It has been shown in *Coleman v. Siegler*, Appeal No. 16154 now before this Court, that Coleman's Giwosky patent which it is exerting against Holly covers a design which Coleman said it was going to convert to in order to avoid infringement but never did, that Claim 2 of the Giwosky patent covers a design which Mr. Giwosky tried and found to be unsatisfactory because it would not pass A.G.A. tests, and that these facts coupled with the timing of the Giwosky patent indicate that it was obtained only for nuisance value against Siegler's predecessor, Holly.

(14) Coleman continues to argue in the case of *Coleman v. Siegler* that Claim 2 of its Giwosky patent is valid and infringed by Siegler. Yet Siegler has shown that it does not infringe the Giwosky patent because the Holly heater takes all the air for its secondary heat exchanger or economizer from the space about the lower box of the

heater. [R. 1205.] The inference is clear that the litigation in *Coleman v. Siegler* is being continued for nuisance purposes.

Coleman continues to employ every legal maneuver available to it whether justified or not. Punitive damages are warranted.

An award of attorneys' fees may be justified by even less showing of unfairness or bad faith than is required to justify an award of punitive damages. (*Livesay Window Company, Inc. v. Livesay Industries, Inc.*, 251 F. 2d 469, 475 (5th Cir., 1958).) In the Ninth Circuit cases of *Pacific Contact Laboratories v. Solax Laboratories*, 209 F. 2d 529 (9th Cir., 1953), and *Morrill, et al. v. Kelly Ryan Equipment Company*, 104 U. S. P. Q. 161 (So. Dist. Calif., 1954) (not reported in Fed. Rep.), the courts awarded attorneys' fees to a successful patent owner but did not award increased damages. In the *Pacific Contact Laboratories* case the court sustained an allowance of attorneys' fees on the ground that the infringement was deliberate and willful and the infringing product was a "Chinese copy" of the patented device. In the *Morrill, et al.* case, the court awarded attorneys' fees on the grounds that the infringement was willful and deliberate.

Any one of the above-enumerated grounds is sufficient to justify an award of punitive damages and attorneys' fees. Coleman cannot refute any of the many grounds. However, in an endeavor to justify its actions, Coleman alleges that it acted in good faith because it consulted its engineers and its patent counsel and because it obtained a patent of its own. Mere consultation and obtaining a patent do not establish good faith. Actions belie words,

and Coleman's actions show that it deliberately proceeded in complete disregard of Holly's patent rights.

Correspondence between Mr. Olds and Coleman's patent counsel, Mr. Dawson, indicates that Mr. Olds wrote on January 13, 1953, that he felt that Coleman did not infringe Holly's patent. However, he was an engineer, not a patent lawyer, and hence he asked Mr. Dawson for his opinion. [R. 1267-1271.]

Despite the rule that all letters in a series of correspondence should be introduced, Mr. Dawson's response to this request was not put in evidence by Coleman. The next piece of correspondence of record is dated March 23, 1953. Again it is directed from Mr. Olds to Mr. Dawson. It stated that, "It is true that we have two ribs on the back of our casing. Hence it could be claimed that we have automatically provided a channel for the circulation of air from floor level around what the patent terms the lower box and up into the top box" [R. 1279]; that "certainly Holly could prove that some circulation does exist" [R. 1281]; and that to seal against that circulation "we can try a baffle at the top of the casing at the back to see what it will do. However, this may be difficult for American Gas Association tests covering wall temperatures surrounding the unit are extremely difficult to meet. Therefore, even a slight change of this kind might throw us over the allowable 90° rise." [R. 1281.]

This was a clear indication that Coleman knew that it was using this feature of Holly's patented wall heater and knew that it would be "extremely" difficult or impossible to dispense with that flow of air. That such flow of air was essential was corroborated by Coleman's Mr. Berry during the accounting proceedings. He tested a

heater with this flow of air cut off and found that it would not meet the A.G.A. regulations concerning wall temperatures. [R. 1556, 1560, 1566.]

Mr. Dawson testified during the accounting proceedings that he advised Coleman that in his opinion there was no infringement. [R. 779.] However, he admitted that he was not familiar with the wall heaters at the time he gave his opinion, that he did not know whether the statements he made about them were actually true, and that he had not observed any tests of the heaters. [R. 786.] Obviously, Mr. Dawson was not sufficiently informed to render an opinion concerning infringement upon which Coleman could rely in good faith. Yet he was given responsibility for guiding Coleman. [R. 1281.]

Moreover, there is no written evidence in the record showing what Mr. Dawson actually told Coleman. The facts of record show that Coleman or its agent was grossly indifferent to the point of carelessness. The facts of record further provide a strong inference that Mr. Dawson informed Coleman that it was infringing. Otherwise, why would Coleman request a license under the patent in September, 1952, after Mr. Dawson examined the file wrapper of the patent and gave a report to Coleman on August 28, 1952? [R. 1256, 1267.] Likewise, why would Mr. Dawson inform Holly on April 15, 1953 that Coleman was changing its wall heater structure so as to prevent any flow of air from the lower box to the upper box [Orig. R. 513], if it was in fact his opinion that there was no infringement?

The fact that Coleman obtained a patent of its own is of no significance with respect to its claim of good faith. If Coleman's patent had been obtained without

knowledge of a possible conflict with Holly, it might have some significance concerning good faith. However, the timing of Coleman's Giwosky patent is exactly opposite to the situation required for good faith. The application for the Coleman patent was not filed until October 1, 1953, more than one year after the Holly patent issued as a public document, and after Coleman had notice of the Holly patent, and after Coleman's design engineer had inspected the Holly heater. (233 F. 2d 71, 84.)

Moreover, Coleman's infringement was complete about a year before it filed its patent application, because it placed the infringing devices on the market in October, 1952, long prior to the date on which it filed its application—October, 1953. Furthermore, the Coleman application was not filed until after Holly had served a formal notice of infringement on Coleman, and not even until after Holly filed its complaint in the present action against Coleman. Hence, it is clear that Coleman's patent is merely a sham.

Further evidence of the insignificance of Coleman's patent is that the District Court found the patent to be invalid. One ground for this decision was that Coleman's patent did not show invention over Holly's prior patent. This matter is the subject of Appeal No. 16154 now before this Court.

Moreover, Coleman did not follow its Giwosky patent which requires that all of the air for the secondary heat exchanger or economizer enter directly from the room. Rather, Coleman derived part of this air from the space about the sides and back of the lower box in accordance with Holly's patent.

Coleman did not mark the Giwosky patent number on its wall heaters in accordance with 35 U. S. C. 287, and this is further evidence that Coleman did not follow its own patent. It could have incurred a penalty under 35 U. S. C. 292 if it had falsely marked the Giwosky patent number on its heaters.

Thus, the mere existence of Coleman's Giwosky paper patent does not establish good faith at all.

Coleman contends that \$20,265.98 of the increase in damages concerning the contempt sales is improper. The District Court rendered only one decision in which Holly's actual damages were assessed and in which the Court also awarded punitive damages. The award may be increased "up to three times the amount found or assessed." (35 U. S. C. 284.) The increase in the present case is far short of the amount permitted by statute, and is obviously permissible and proper.

Coleman even objects to the District Court's Finding XXVII that "The attorneys' fees and expenses incurred by plaintiff in the contempt proceedings in the amount of \$9,269.77 is reasonable." Yet when it was offered in evidence, Coleman made no objection concerning accounting Exhibit 49, which sets forth the facts concerning these expenses. Coleman even waived the foundation for this exhibit. [R. 1806.]

An award of attorneys' fees and punitive damages is discretionary with the trial court and in the present case the District Court was in excellent position to evaluate Coleman's motives and lack of good faith. Also, the present record is replete with evidence showing Coleman's motives and bad faith. The District Court exercised proper discretion in awarding attorneys' fees and increasing the award to provide punitive damages.

As another court has stated:

“The law placing, as it does, the discretion in the trial court to determine whether the compensatory damages shall be increased in the nature of a penalty and whether the case is an exceptional one so that attorneys’ fees should be allowed, appellate courts ought not to and will not interfere with the exercise of such discretion. Indeed, they may not do so unless there is such a clear abuse as to show that discretion was not exercised, or unless it is plain that the trial court’s decision is based on an erroneous concept of law. This is not such a case.” (*Graham v. Jeoffroy Mfg. Inc.*, 253 F. 2d 72, 78 (5th Cir., 1958).)

XII.

This Appeal Is Frivolous and Vexatious.

It is requested that this Court increase the damages actually awarded by the District Court in the amount of 10% and double costs to provide just damages to Holly for the unwarranted delay, for its expenses for legal counsel incurred in this appeal, and for printing its briefs and portions of the record, caused by Coleman’s appeal on frivolous and vexatious grounds.

This request is under the provisions of 28 U. S. C. 1912 which provides “Where a judgment is affirmed by the Supreme Court or a Court of Appeals, the Court, at its discretion, may adjudge to the prevailing party just damages for his delay and single or double costs.”

Throughout the accounting proceedings and throughout its brief on this appeal, Coleman has been stubbornly litigious to the point that the legal proceedings have become frivolous and vexatious. Coleman is still endeavoring to retry the entire case, even though it has employed

every legal maneuver available to it and has lost every decision unequivocally throughout the six years that this litigation has been going on.

This is an accounting, not an action for patent infringement. Yet Coleman is now arguing that it really did not infringe at all and, hence, nominal damages should be awarded. In support of this, Coleman urges that the evidence upon which all the prior decisions are based, including the decision of this Court, is mistaken and incorrect. Yet Coleman is basing its argument upon the *very same type evidence* which both the District Court and this Court have already considered and rejected. Nothing new has been added. Coleman is merely endeavoring to retry the case again.

In its effort to reargue the entire case, Coleman is even arguing points which it did not set forth in its Points on Appeal or Statement of Errors.

After being adjudged an intentional tort-feasor, Coleman now contends that it derived no benefit from the infringement because it wanted to exclude the flow of air from the lower box to the economizer and actually did reduce this flow somewhat. However, it is elementary that mere modification in size of an element of a patent claim does not avoid infringement. Coleman derived a large benefit from the infringement—\$1,186,537.27.

Coleman further contends that it could have produced a non-infringing wall heater which would have had all the major features of the Holly heater and which would have been fully competitive with the Holly heater. This is entirely conjectural and speculative and is a tactic which the courts have expressly rejected.

Even if Coleman could show that it could have produced such a non-infringing heater it would have no in-

fluence on the damages in this case. This is because any such standard of comparison must have been in common use prior to Holly's invention. There was no such device.

Also, Coleman has alleged throughout this accounting proceeding that since 1946 profits have been virtually eliminated as a measure of damages under the statute concerning damages in patent cases. Actually the 1946 change broadened the statute. The Congressional proceedings concerning this statute and the decisions which have interpreted the statute show that profits are a proper element or measure of damages so clearly that further argument by Coleman to this effect is frivolous and vexatious.

The case of *Wright v. Central National Bank of Topeka, Kansas*, 37 F. 2d 234 (10th Cir., 1929) (cert. den. 281 U. S. 755) is similar to the present case with respect to the nature of the appeal. In the *Wright* case there was a long series of litigation in which the defendant lost every round, just as in the present case. After the decision of the Court became final, the defendant brought suit to enjoin enforcement of the judgment. In the present case Coleman has done everything possible to avoid enforcement of the judgment. In the *Wright* case the Court found the appeal to be without merit, vexatious and frivolous and awarded an increase in the damages in the nature of a penalty under 28 U. S. C. 878 and 880. It is submitted that the present appeal is without merit, vexatious and frivolous and that damages should be increased under 28 U. S. C. 1912, which has superseded 28 U. S. C. 878 and 880 and which is exactly the same as the previous statute as far as the present case is concerned.

Similar awards have been made by this Court. In *Commercial Wholesalers, Inc. v. Investors Commercial*

Corporation, 172 F. 2d 800 (9th Cir., 1949), this Court awarded the appellee its costs of printing its brief and its counsel fees as damages for the expense and delay caused by an unwarranted appeal.

Likewise, in *Grace Lowe v. Glen A. Willacy*, 239 F. 2d 179 (9th Cir., 1956), this Court found an appeal to be frivolous and as just damages for the delay caused by the appeal, the Court awarded double costs, an amount equal to appellee's attorneys' fees and the cost of printing appellee's brief.

It is submitted that the award should be increased 10% and with double costs due to the frivolous and vexatious nature of the appeal. Litigation of this type should be discouraged, and Holly is entitled to just damages for its delay, trouble and expenses in this appeal.

Conclusion.

Coleman is paying no more than lip service to the prior decisions of the District Court and of this Court and is rearguing the entire case, particularly the issue of infringement.

Coleman's arguments about infringement concern only questions of fact and it is merely rehashing the prior evidence and arguments which were settled by the trial court after inspecting the infringing devices and witnessing inter partes tests.

Coleman's arguments about the amount of the damages are also merely questions of fact which were resolved by the trial court after extensive proceedings. The only possible question of law is whether or not profits are recoverable as damages today, either the infringer's actual profits or the patent owner's probable profits, both of which are traditional measures of damages in patent cases

as well as in other cases involving tortious wrongs. The law is crystal clear that such profits are recoverable to-day. Hence, this question of law is beyond dispute.

The amount of Coleman's actual profits is not seriously disputed by Coleman on this appeal. Coleman, as an intentional tort-feasor, must give up these profits in any event.

However, Coleman interfered with exploitation of the unique patented wall heaters by Holly, causing Holly to lose sales and to suffer other losses. In all reasonable probability Holly would have sold additional wall heaters corresponding in number to Coleman's infringing sales.

Holly's damages, computed on the basis of its lost sales, is larger than Coleman's actual profits. Hence, Holly's lost profits is the proper measure of damages in this case. That is what Coleman wrongfully took from Holly.

The $33\frac{1}{3}$ per cent increase in the award is necessary to compensate Holly for its other losses such as increased selling expenses, forced price reductions, and curtailment of its market expansion.

There is abundant evidence to justify the award of punitive damages and attorneys' fees. Coleman's improper endeavor to reopen the entire case in the present appeal and argue matters which are *res judicata* is one striking example.

Whether or not the sales of the wall heaters after the injunction became final were in contempt of court is purely a question of fact. The sole issue is whether or not the wall heaters sold with chutes infringed Holly's patent. The issue of infringement is a question of fact. The District Court found infringement. Great weight is given a trial court's determination of questions of fact,

particularly when the determination is based upon an inspection of physical apparatus and inter partes tests of the apparatus.

Due to the extensive legal proceedings involved before it, the District Court was in excellent position to balance the credibility of the witnesses, and to balance the persuasiveness and weight of the evidence. Its judgment on all the issues is well supported by the record before this Court and there is no error.

Coleman has been litigious to the point that this appeal is vexatious and frivolous.

The decision of the District Court should be affirmed on all grounds, and the award should be increased 10% by this Court in order to do justice.

Respectfully submitted,

CHRISTIE, PARKER & HALE,

By JAMES B. CHRISTIE,

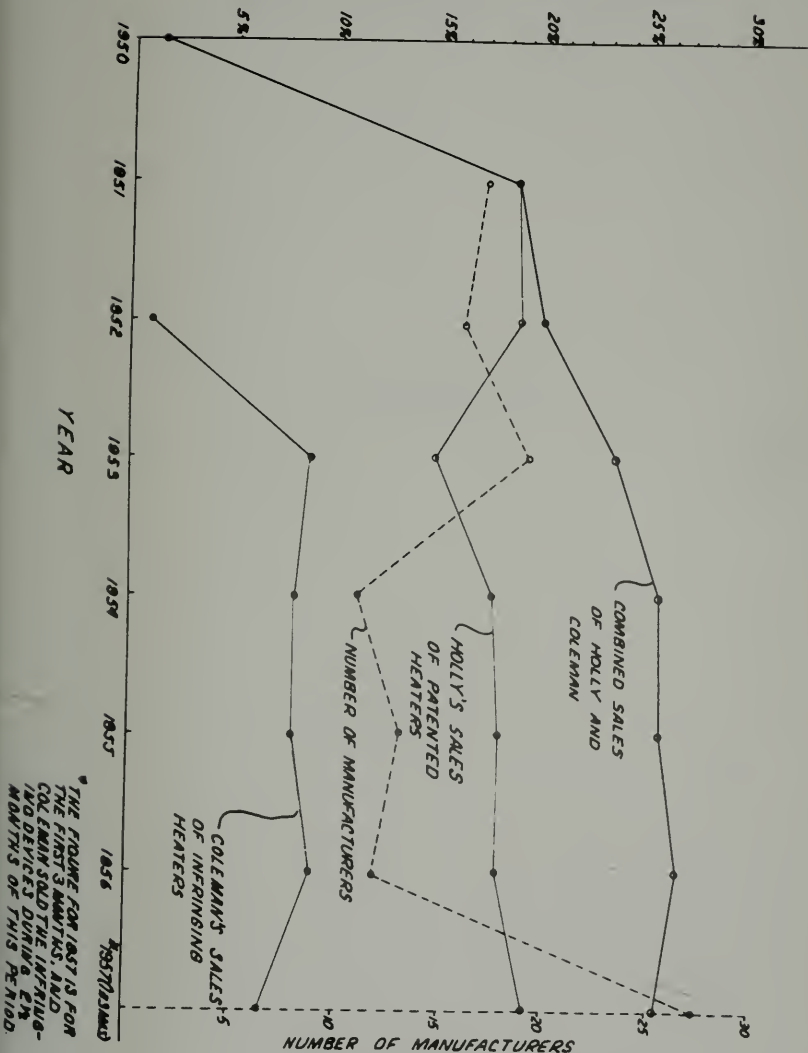
C. RUSSELL HALE,

Attorneys for Appellee.

RICHARD B. HOEGH,
Of Counsel.

APPENDIX A.

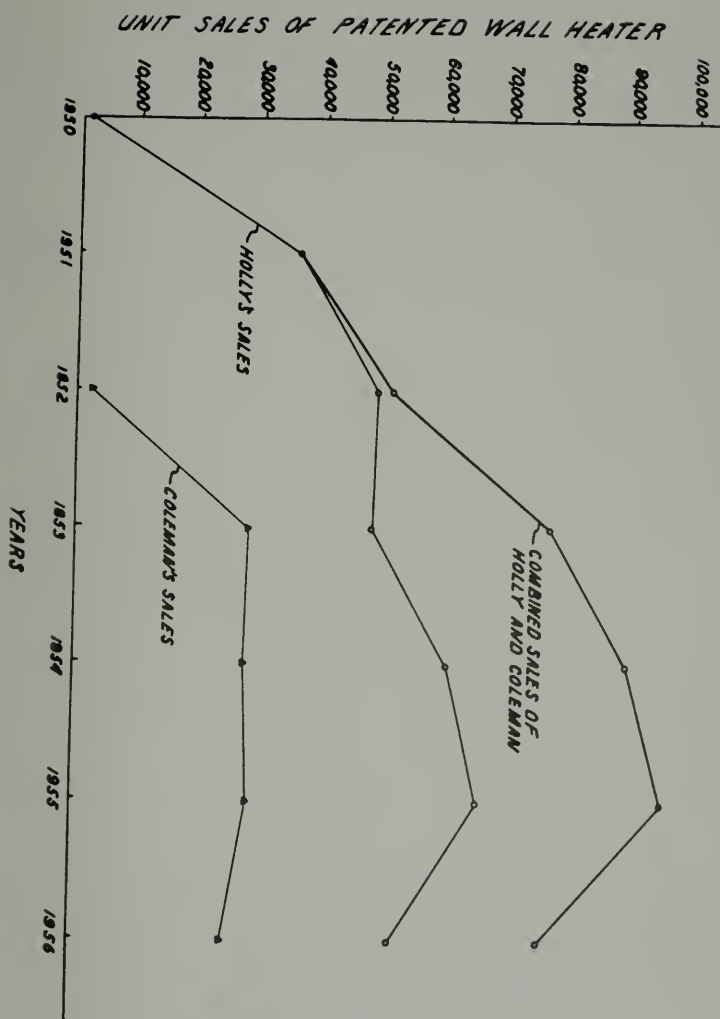
PERCENTAGE OF NATIONAL WALL HEATER
MARKET BASED UPON UNITS SHIPPED



APPENDIX A - ENLARGED

Endorsed: Filed April 10, 1958.

APPENDIX B.



APPENDIX B

Endorsed: Filed March 25, 1958.

APPENDIX C.

The 1946 amendment to the patent statutes originated in the House of Representatives. When the amendment (H. R. 5311 to amend 35 U. S. C. Sec. 70) came to the floor of the House, the following colloquy occurred:

“Mr. Cole of New York: . . . In order that the House may be fully advised as to the effect of the bill, I ask that some informed Member explain it . . .

“Mr. Lanham: . . . This bill simply provides for proper damages with reference to infringement, and allows the court, *in case the infringement of the patent is innocent, merely to assess royalties and** restrain further infringement and *in case of willful infringement to provide what the damages shall be.** The measure of such damages is clearly set out. It will be due compensation for making, using, or selling the invented article, not less than a reasonable royalty therefor. If the gentleman has examined the report, he will have noted that the object of the bill is to make *the basis of recovery in patent-infringement suits general damages; that is, any damages a complainant can prove, not less than a reasonable royalty* . . .*

“Mr. Cole of New York: I would like to be sure. Do I understand correctly that the effect of this bill is to make a *reasonable royalty for an infringement the measure of minimum damages** to any holder of a patent whose patent has been infringed?

“Mr. Lanham: That is the purpose of the bill as brought out before the Committee.

“Mr. Cole of New York: And to that extent it would simplify the case of an aggrieved party in proving damages?

*Emphasis ours.

“Mr. Lanham: It would . . .

“Mr. Cravens: *Would not that mean the enforced compulsory licensing of patents** if the invention is limited to merely collecting royalty?

“Mr. Lanham: *The inventor is not limited merely to collecting the royalty. I would say that in the case of an innocent infringer who had infringed without notice and without knowledge that it would be unreasonable to collect from him more than the reasonable royalty.**

“Mr. Cravens: I agree on that.

“Mr. Lanham: *But if there has been a willful infringement, then the damages as set out in the bill can be collected.**

“Mr. Cravens: And such damages could still be recovered under the existing law in the case of willful infringement.

“Mr. Cole: Mr. Speaker, I withdraw my reservation of objection.” (Cong. Rec.—House, 1946, p. 1857.)

When the House Bill came before the Senate it was accompanied by a Committee report which stated:

“The object of the bill is to make *the basis of recovery in patent infringement suit general damages, that is any damages the complainant can prove not less than a reasonable royalty, together with interest from the time the infringement occurred, rather than profits and damages. . . . Although the bill would not preclude the recovery of profits as an element of general damages,** yet by making it unnecessary to have proceedings before Masters and empowering equity Courts to assess general damages irrespective of profits, the measure represents proposed legislation which in the judgment of the Com-

*Emphasis ours.

mittee is long overdue." (Senate Report No. 1503 of June 14, 1946, 1946 Congressional Code Service 1386.)

Thereafter, the following discussion occurred on the floor of the Senate:

"Mr. Revercomb: I should like to ask for an explanation of the House bill 5311 and House bill 5223, both of which deal with proposed changes in the patent law.

"Mr. Pepper: . . . Let me state what the bill does: *Under the present law, if a suit is maintained for the infringement of a patent, the measure of damages is the profit made by the alleged infringer, and also general compensatory damages which might have been suffered by the claimant.**

Experience has proven that it is such a difficult accounting matter to determine what the profit of the alleged infringer has been that there is almost always an interminable delay in connection with the recovery sought.

Consequently, the basis laid down by this bill is general compensatory damages which the plaintiff in the suit sustains. Of course, *that may include profits, but it is not limited to profits,** and it is not necessary to prove profits, if the plaintiff does not find it appropriate to do so . . ." (Cong. Rec.—Senate 1946, p. 9188.)

*Emphasis ours.

